

GAO

Report to the Ranking Minority Member,  
Subcommittee on Housing and  
Transportation, Committee on Banking,  
Housing, and Urban Affairs, U.S. Senate

March 2002

## PUBLIC HOUSING

# New Assessment System Holds Potential for Evaluating Performance

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# Contents

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Letter	1
Results in Brief	2
Background	7
PHAS and PIC Establish Criteria for Identifying Performance Problems	9
At Some Nontroubled Housing Authorities, Unsatisfactory Living Conditions Stemmed from Management Deficiencies	18
HUD Has Several Options for Addressing Housing Authorities' Problems	31
Conclusions	38
Recommendation for Executive Action	38
Agency Comments	38
Scope and Methodology	39

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## Appendixes

<b>Appendix I: Extent to Which Problems Occur at All Public Housing Authorities</b>	42
REAC's Data for the End of Fiscal Year 2000	42
PIC Data for the End of Fiscal Year 2001	47
<b>Appendix II: Problems at Nontroubled High-Risk Public Housing Authorities</b>	49
<b>Appendix III: Camden Housing Authority</b>	51
Historical Problems	51
HUD's Role and Corrective Actions	53
Current Status and Challenges	54
<b>Appendix IV: Puerto Rico Public Housing Administration</b>	57
Historical Problems	57
HUD's Role and Corrective Actions	60
Current Status and Challenges	60
<b>Appendix V: Housing Authority of New Orleans</b>	62
Historical Problems	62
HUD's Role and Corrective Actions	64
Current Status and Challenges	64
<b>Appendix VI: Chicago Housing Authority</b>	66
Historical Problems	66
HUD's Role and Corrective Actions	68
Current Status and Challenges	68

<b>Appendix VII: San Francisco Housing Authority</b>	70
Historical Problems	70
HUD's Role and Corrective Actions	71
Current Status and Challenges	71
<b>Appendix VIII: Contact and Staff Acknowledgments</b>	72
GAO Contact	72
Acknowledgments	72

## Tables

Table 1: PHAS Designations for Fiscal Year 2001 under Partial and Full Implementation	12
Table 2: Quality Factors Associated with Nontroubled High-Risk and Nontroubled Low-Risk Housing Authorities	50

## Figures

Figure 1: Examples of Well-Maintained Public Housing Properties, San Francisco Housing Authority and Camden Housing Authority	5
Figure 2: Examples of Deteriorated Public Housing Properties, San Francisco Housing Authority and Camden Housing Authority	6
Figure 3: Potential Increase in Recovery Centers' Workload Following Full Implementation of PHAS	14
Figure 4: Risk Levels of Troubled and Nontroubled Housing Authorities, Fiscal Year 2001	17
Figure 5: Examples of Well-Maintained Public Housing, Puerto Rico Public Housing Administration	19
Figure 6: Examples of Deteriorated Public Housing, Puerto Rico Public Housing Administration	20
Figure 7: Examples of Health Hazards in Public Housing, Puerto Rico Public Housing Administration	21
Figure 8: Examples of Safety Hazards, Puerto Rico Public Housing Administration	22
Figure 9: Examples of Public Housing Problems, Housing Authority of New Orleans	23
Figure 10: Examples of Public Housing Problems, Housing Authority of New Orleans	24
Figure 11: Examples of Public Housing Problems, Housing Authority of New Orleans	25
Figure 12: Examples of Public Housing Problems, Chicago Housing Authority	26
Figure 13: Examples of Public Housing Problems, Chicago Housing Authority	27

---

## Contents

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Figure 14: Completed Modernization Project at the Camden Housing Authority	35
Figure 15: Modernization Project in Process at the Camden Housing Authority	36
Figure 16: Percentages of Public Housing Authorities Receiving Scores of Less than 60 Percent for PHAS Subindicators	44
Figure 17: Percentages of Public Housing Authorities Receiving Scores of Zero for PHAS Subindicators	46
Figure 18: Presence of Factors Indicating Potential Problems with the Quality of Housing Authorities' Management	48
Figure 19: Example of a Deteriorated Public Housing Development at the Camden Housing Authority	53
Figure 20: Example of a Rehabilitated Public Housing Development at the Camden Housing Authority	55
Figure 21: Example of a Deteriorated Public Housing Development at the Housing Authority of New Orleans	63
Figure 22: Examples of a Deteriorated Public Housing Development at the Chicago Housing Authority	67

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## Abbreviations

HANO	Housing Authority of New Orleans
HUD	Department of Housing and Urban Development
PHAS	Public Housing Assessment System
PHMAP	Public Housing Management Assessment Program
PIC	Public and Indian Housing Information Center
PRPHA	Puerto Rico Public Housing Administration
REAC	Real Estate Assessment Center
SFHA	San Francisco Housing Authority





United States General Accounting Office  
Washington, D.C. 20548

March 15, 2002

The Honorable Wayne Allard  
Ranking Minority Member, Subcommittee on Housing  
and Transportation  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate

Dear Senator Allard:

The Department of Housing and Urban Development (HUD) spends nearly \$7 billion annually to provide decent, safe, and sanitary housing for low-income households in about 14,000 rental properties administered by over 3,000 public housing authorities nationwide. Yet despite expenditures of this magnitude, many public housing properties have been unsafe and unsanitary for several decades. To identify and correct these and other problems at public housing properties, HUD has begun to implement a new tool—the Public Housing Assessment System (PHAS)—for evaluating public housing authorities' performance. Although HUD is still testing and revising PHAS, it has begun to use the results of the PHAS analysis to designate certain housing authorities as troubled and to assign them to recovery centers, where they receive technical and other assistance to correct their problems. In addition, HUD established the Public and Indian Housing Information Center (PIC) database to collect information about funding, compliance, and other problems that fall outside the scope of PHAS. PIC generates a risk assessment for HUD field offices to use in planning their monitoring strategies and targeting their monitoring resources. Both PHAS and PIC collect data for all public housing authorities, and these data are used for different but complementary purposes.

Concerned about conditions at public housing authorities and how those conditions are measured, you asked us to

- identify HUD's criteria for designating housing authorities as troubled under PHAS and for classifying them as high risk under PIC and determine whether the results of the PHAS and PIC analyses are consistent;

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- describe the kinds of problems found at housing authorities that have not been designated as troubled under PHAS but have been classified as high risk under PIC; and
  - identify HUD's options for addressing problems at housing authorities, regardless of whether they have been designated as troubled, and examples of the options HUD has used at nontroubled authorities that pose high risks.

In addition, as requested by your office, we determined the extent to which problems occur at all public housing authorities. The results of this analysis, which were based on PHAS and PIC data, are discussed in appendix I.

To address these objectives, we analyzed PHAS and PIC data to identify problems at troubled and nontroubled public housing authorities; interviewed HUD headquarters and field staff; and reviewed public housing laws, policies, and procedures. We visited four public housing authorities that had not been designated as troubled but had been classified as high risk at the time of our review—the Camden Housing Authority, the Chicago Housing Authority, the Housing Authority of New Orleans, and the San Francisco Housing Authority. In addition, because of serious problems that have sparked intense congressional interest, we visited the Puerto Rico Public Housing Administration. We provide background information on these five housing authorities in appendixes III through VII—that is, historical problems, HUD's role and corrective actions, and current status and challenges. Our scope and methodology are discussed in greater detail at the end of this letter. This is one of several engagements we have planned to assess problems in public housing and to evaluate the corrective actions that HUD and public housing authorities have taken.

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## Results in Brief

HUD uses PHAS and PIC to assess public housing authorities' performance. PHAS includes four performance indicators: (1) the physical condition of the properties, (2) the financial condition of the housing authority, (3) the authority's management operations, and (4) residents' satisfaction with their living conditions. HUD develops a score for each indicator and, starting in fiscal year 2002, plans to use the scores for all four indicators to determine whether housing authorities are troubled. To date, HUD has used only the management operations score to designate housing authorities as troubled. While the scores for the other indicators are based on independent analyses, housing authorities self-certify the data that HUD

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uses to calculate the management operations score. After designating a housing authority as troubled, HUD generally refers the authority to a recovery center for rehabilitation, although a HUD field office may sometimes continue to monitor a troubled authority. As of December 3, 2001, 21 of 3,167 authorities were designated as troubled and 20 of the troubled authorities were assigned to a recovery center. When HUD fully implements PHAS and uses the scores for all four indicators, it should designate many more authorities as troubled. However, it is too early to tell how effective PHAS will be in identifying and providing for the correction of long-standing problems at public housing authorities. The PIC risk assessment uses the total PHAS score and information about funding and compliance issues to classify troubled and nontroubled housing authorities as high, moderate, or low risk. According to HUD, the field offices focus their monitoring resources primarily on the nontroubled high-risk authorities in an effort to correct their problems before the authorities are designated as troubled. Our analysis revealed that the results of the PHAS and PIC assessments were inconsistent. Specifically, 12 of the troubled authorities were classified as low risk. Although 11 of the troubled low-risk authorities were assigned to recovery centers for rehabilitation, 1 remained under the field office's supervision and was scheduled to receive routine monitoring—the lowest level of monitoring. Such monitoring may not be sufficient to correct the problems of a troubled housing authority. Accordingly, we are recommending that all troubled housing authorities be classified as high risk to better ensure that they receive sufficient monitoring. In commenting on a draft of this report, HUD agreed with our recommendation and is planning to revise its risk assessment to incorporate this change. HUD also provided technical comments, which we incorporated in this report as appropriate.

The five public housing authorities we visited, which had not been designated as troubled under PHAS but had been classified as moderate to high risk under PIC, had a wide variety of problems. However, even under the same authority, some developments were well or adequately maintained, while others exhibited cosmetic, structural, or health and safety problems. For example, new HOPE VI developments at the San Francisco Housing Authority and some older properties at the Camden Housing Authority were very well maintained, while other developments at these authorities had problems ranging from broken windows to deteriorated structures (see figs. 1 and 2). Some problems, including broken windows and damaged roofs at the Housing Authority of New Orleans and open fuse boxes, open electric meters, leaky sewer pipes, mold, and termites at the Puerto Rico Public Housing Administration,

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created safety and health hazards for residents. These problems stemmed from a variety of management deficiencies. For example, poor procurement practices at the San Francisco Housing Authority, fraud and abuse at the Puerto Rico Public Housing Administration, and a lack of capacity to manage maintenance and modernization efforts at the Housing Authority of New Orleans diverted funds from their intended uses and delayed the completion of scheduled repairs and capital improvements. These management deficiencies, in turn, resulted from problems such as weak internal controls, high staff turnover, and insufficient training. Data were not readily available to determine whether the physical and management problems we observed at the housing authorities we visited were representative of nontroubled high-risk housing authorities nationwide. However, according to information reported to PIC, nontroubled high-risk authorities are more likely than nontroubled low-risk authorities to have factors indicative of problems in management, such as staff that lack skills needed to carry out their functions, significant and repeated delays in submitting required information, complaints from tenants, disagreements between the housing authority's board and management that impede operations, and major audit findings relevant to the authority's operations (e.g., poor procurement practices, fraud and abuse, and lack of capacity to manage modernization projects).

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**Figure 1: Examples of Well-Maintained Public Housing Properties, San Francisco Housing Authority and Camden Housing Authority**



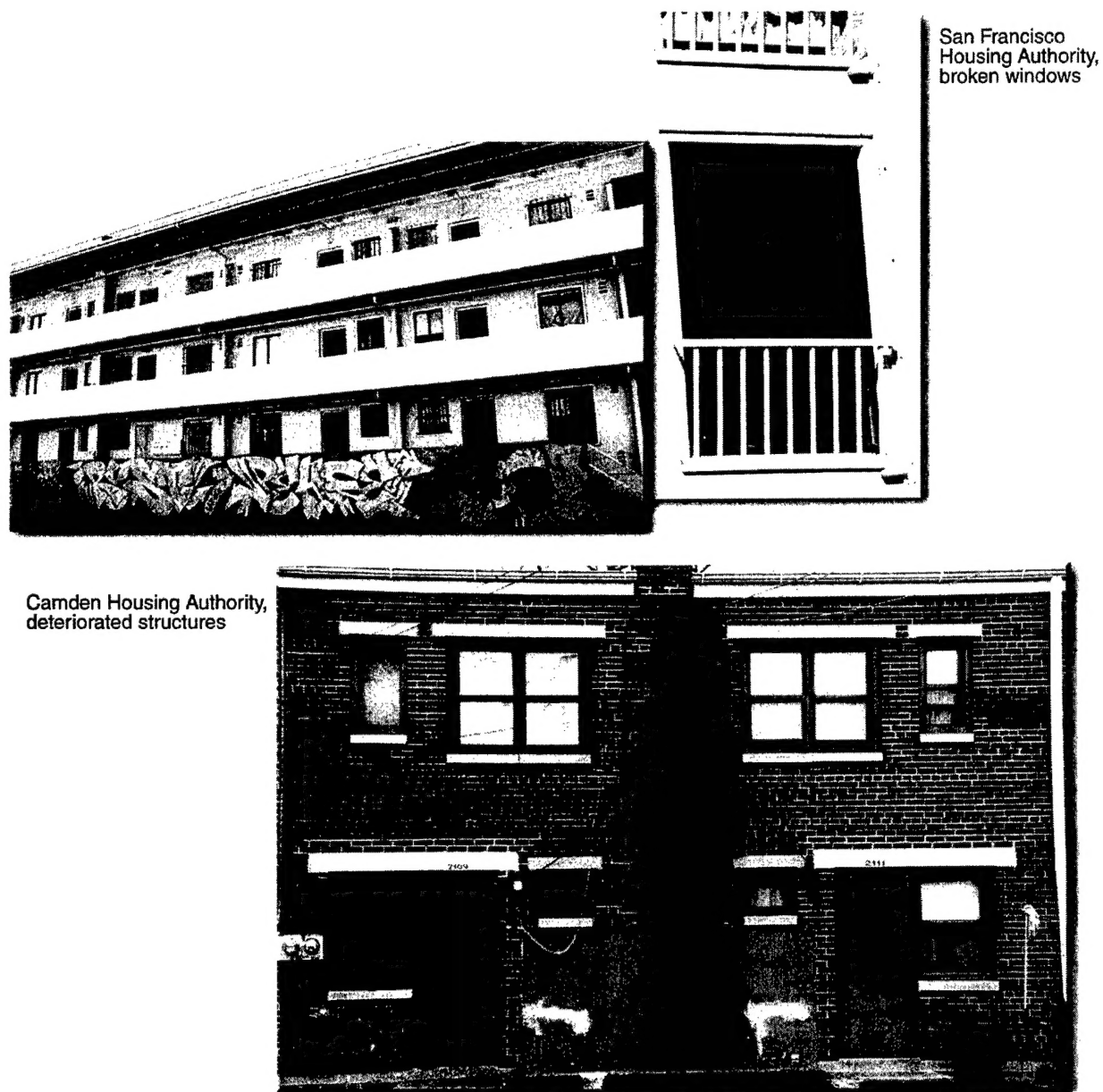
San Francisco  
Housing Authority,  
new HOPE VI development

Camden Housing Authority,  
well-maintained older  
properties



Source: GAO photographs taken during site visits to five housing authorities.

**Figure 2: Examples of Deteriorated Public Housing Properties, San Francisco Housing Authority and Camden Housing Authority**



Source: GAO photographs taken during site visits to five housing authorities.

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HUD has several options for improving the performance of problem housing authorities, regardless of whether they have been designated as troubled. HUD's choice of options varies with circumstances at the authorities and the level of intervention needed. For example, HUD may provide technical assistance at a housing authority through either a field office team or a troubled agency recovery center. At the Puerto Rico Public Housing Administration, headquarters and field office teams are helping to resolve procurement weaknesses, and at the San Francisco Housing Authority, recovery center staff are developing a plan to address the authority's financial and procurement difficulties. HUD may also impose sanctions on a housing authority or intervene in its operations to compel the authority to correct problems. At the financially troubled San Francisco Housing Authority, for example, HUD reviews staff salaries and procurement contracts in excess of \$50,000. For more serious, long-standing problems, HUD may place a housing authority into receivership. At the Camden Housing Authority, HUD imposed an administrative receivership, taking over the authority's decision-making authority and sending in a recovery team to revamp the authority's operations. Finally, in some instances, HUD may enter into special agreements with housing authorities, giving them the flexibility to address unique problems. For example, HUD authorized the Chicago Housing Authority to consolidate its funding sources in order to demolish its old high-rise developments; relocate residents; and build mixed-income, low-rise developments. While these options have the potential for solving problems at public housing authorities, it is still too early to evaluate their effectiveness. Moreover, in the past, the options have not always fully addressed the problems or the housing authorities have not sustained the improvements.

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## Background

HUD is required by law<sup>1</sup> to assess the performance of public housing authorities so that the secretary of housing can evaluate the authorities' performance in all major areas of management operations. In response to this law, HUD introduced the Public Housing Management Assessment Program (PHMAP) in 1992. Though designed to evaluate housing authorities' performance, PHMAP was based on self-certification, and, by 1998, about two-thirds of the authorities had certified themselves as high performers. Furthermore, PHMAP did not provide for either an independent physical inspection or input from the public housing residents

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<sup>1</sup>42 U.S.C. 1437d(j), Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

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themselves. An authority could be classified as a standard or a high performer even though its residents were living in conditions that HUD considered unacceptable.<sup>2</sup>

In 1997, as part of its 2020 Management Reform Plan, HUD instituted a new approach for evaluating public housing authorities' overall performance and for helping them improve their performance. The approach includes the following components:

- PHAS is designed to obtain an independent evaluation of an authority's overall operations, including the physical condition of its housing, the soundness of its financial operations, the effectiveness of its management operations, and the extent to which residents are satisfied with their services and living conditions.
- The Real Estate Assessment Center (REAC) collects and analyzes PHAS data and provides for independent physical inspections of HUD's 14,000 public housing properties as well as for analyses of their financial condition and surveys of residents' satisfaction.<sup>3</sup>
- Two Troubled Agency Recovery Centers assist those authorities that fail the PHAS evaluation and are designated as troubled or substandard as well as those that voluntarily seek technical support from the centers.
- A statute<sup>4</sup> requires that a housing authority be placed into receivership if it is unable to turn around failing management and escape troubled status within 2 years.<sup>5</sup>

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<sup>2</sup>U.S. General Accounting Office, *Public Housing: HUD Should Improve the Usefulness and Accuracy of Its Management Assessment Program*, GAO/RCED-97-27 (Washington, D.C.: Jan. 29, 1997).

<sup>3</sup>U.S. General Accounting Office, *HUD Housing Portfolios: HUD Has Strengthened Physical Inspections but Needs to Resolve Concerns About Their Reliability*, GAO/RCED-00-168 (Washington, D.C.: July 25, 2000) and *HUD Inspections: Steps Needed to Address Uncertainty in Inspection Scores*, GAO-01-109 (Washington, D.C.: Nov. 8, 2000).

<sup>4</sup>42 U.S.C. 1437d(j).

<sup>5</sup>The Quality Housing and Work Responsibility Act of 1998, enacted shortly after HUD first issued regulations implementing PHAS, requires housing authorities to be placed into receivership if they cannot emerge from troubled status within 2 years.



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HUD began collecting data for all four PHAS indicators in 1998, and for fiscal year 1999, it computed, for each housing authority, a score for each indicator as well as a total PHAS score. HUD used these scores to test the system but not to classify housing authorities' performance. For public housing authorities whose fiscal years ended on or after June 30, 2000, HUD planned to implement PHAS fully; however, the Congress directed HUD to conduct further testing and to obtain an independent evaluation of PHAS before using its scores as a basis for taking adverse actions against public housing authorities.<sup>6</sup> Interpreting the term "adverse action" to mean the designation of a housing authority as troubled on the basis of its total PHAS score, HUD decided to use the score for the management operations indicator alone to classify performance for fiscal year 2000. This decision, in effect, perpetuated PHMAP, since the management operations indicator served as the sole criterion for classifying performance under PHMAP.

HUD's Office of Public and Indian Housing, which administers the public housing program, uses PIC, an Internet-based information system, to generate a risk assessment for the nation's 14,000 public housing properties. HUD's 43 field offices can then use the results of this assessment to plan their annual monitoring strategies. The field offices are also responsible for approving the housing authorities' annual plans and monitoring their compliance with their annual contributions contracts<sup>7</sup> as well as their progress in responding to the HUD Inspector General's conclusions and recommendations.

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## **PHAS and PIC Establish Criteria for Identifying Performance Problems**

HUD uses PHAS and PIC to assess public housing authorities' performance. PHAS includes four performance indicators, which HUD scores and plans to use for designating housing authorities as troubled. In most cases, HUD then refers troubled authorities to a recovery center for rehabilitation. To date, HUD has only partially implemented PHAS, using the score for just one indicator to designate authorities as troubled. Housing authorities self-certify the data for this indicator, whereas the data for the other indicators are based on independent assessments. As of December 3, 2001, 21 of 3,167 authorities were designated as troubled. Our

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<sup>6</sup>See the Conference Report (106-988) for HUD's fiscal year 2001 appropriations act (P.L. 106-377, approved Oct. 27, 2000).

<sup>7</sup>This annual contract between HUD and a housing authority specifies what the authority must do to receive funding from HUD during the contract year.

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analysis indicates that when HUD fully implements PHAS, using the scores for all four indicators as planned, it should designate many more authorities as troubled. HUD is currently revising PHAS, attempting to make it more responsive to the concerns of residents and the public housing industry, before implementing it fully. In addition to PHAS, HUD uses the PIC risk assessment to classify troubled and nontroubled housing authorities as high, moderate, or low risk and to focus its monitoring resources primarily on the nontroubled high-risk authorities to prevent them from being designated as troubled. According to our analysis, 12 of the troubled authorities were classified as low risk, and 1 of these authorities, which was not referred to a recovery center, was scheduled to receive only limited monitoring from the supervising field office. HUD agreed that all troubled authorities should be classified as high risk to better ensure that they receive sufficient monitoring.

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## PHAS Uses Four Indicators

Each year, HUD measures the essential housing operations of public housing authorities through PHAS—a system intended to improve the delivery of services in public housing and to enhance trust in the public housing system among public housing authorities, public housing residents, HUD, and the general public. PHAS scores determine (1) how HUD designates a housing authority (troubled overall, troubled in one area, standard performer, or high performer); (2) which HUD office will be responsible for overseeing the housing authority; and (3) whether the housing authority will be eligible for certain bonus funding. REAC is responsible for assessing and scoring the performance of public housing authorities.

The four PHAS indicators measure different aspects of a housing authority's performance. Each indicator receives a score that is based on specific types of data.

- The physical condition indicator is used to determine whether the housing authority is providing decent, safe, and sanitary housing to its residents. Its score is based on an independent physical inspection of the authority's properties provided by REAC. The public housing industry has expressed concerns about the reliability of these inspections.
- The financial condition indicator measures whether the housing authority has sufficient financial resources and is capable of effectively

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managing those resources. Its score is based on audited and unaudited financial data that the authority is required to submit to HUD each year.

- The management operations indicator measures housing authorities' management performance. Its score, like PHMAP's, is based on self-certified data submitted by the public housing authorities.<sup>8</sup> As we previously reported,<sup>9</sup> HUD cannot ensure the reliability of this indicator because it does not have a systematic way to verify the authorities' self-certified data.
- The resident service and satisfaction indicator measures residents' satisfaction with their living conditions. Its score is based on data obtained through a survey of the residents and an evaluation of the extent to which the public housing authority manages the process in accordance with a methodology prescribed by HUD.

Each of the four PHAS indicators is scored individually. Public housing authorities can receive a maximum of 30 points each for the physical, financial, and management indicators and a maximum of 10 points for the resident service and satisfaction indicator, for a maximum total score of 100 points. HUD's regulations classify housing authorities on the basis of their scores as follows:

- Overall troubled: Less than 60 percent overall or less than 60 percent of the points available under more than one of the three major (physical, financial and management) indicators.
- Troubled in one area: Less than 60 percent of the points available under any one of the three major indicators:
  - substandard physical,
  - substandard financial, or
  - substandard management.

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<sup>8</sup>The management operations indicator has six subindicators—vacancy rate and unit turnaround, capital fund, rents uncollected, work orders, annual inspection of dwelling units and systems, and security and self-sufficiency.

<sup>9</sup>U.S. General Accounting Office, *Public Housing: HUD Needs Better Information on Housing Agencies' Management Performance*, GAO-01-94 (Washington, D.C.: Nov. 9, 2000).

- Standard: At least 60 percent but less than 90 percent overall and at least 60 percent of the points available under each of the three major indicators.
- High: 90 percent or more overall and at least 60 percent of the points available under each of the four indicators.

## Full Implementation of PHAS Is Likely to Result in More Troubled Designations

For fiscal years 2000 and 2001, HUD used the scores for the management operations indicator alone to designate housing authorities as troubled. Thus, the authorities that were designated as troubled in these years were, in fact, troubled in one area—management—rather than overall. According to our analysis of the fiscal year 2001 scores for the management indicator, 45 of 3,167 authorities were troubled. Had HUD used the scores for all four indicators to designate performance in fiscal year 2001, as it plans to do in fiscal year 2002, our analysis indicates that it could have designated as many as 90 public housing authorities as troubled overall and 442 others as troubled in one area. Table 1 presents the results of our analysis.

**Table 1: PHAS Designations for Fiscal Year 2001 under Partial and Full Implementation**

PHAS designation	Number of authorities designated under one indicator	Number of authorities that could be designated under four indicators
Overall Troubled <sup>a</sup>		90
Troubled in one area <sup>a</sup>		442
• Substandard physical		169
• Substandard financial		249
• Substandard management <sup>b</sup>	45	24
Standard performer	3,122	1,808
High performer <sup>a</sup>		827
<b>Total</b>	<b>3,167</b>	<b>3,167</b>

<sup>a</sup>HUD designated no high performers for fiscal year 2001. The only troubled performers were those that were troubled in the management area.

<sup>b</sup>When performance is assessed using all four indicators, housing authorities that are troubled in more than one area become overall troubled. Some of the 45 housing authorities that were troubled in the management area alone under one indicator moved into the overall troubled category when their

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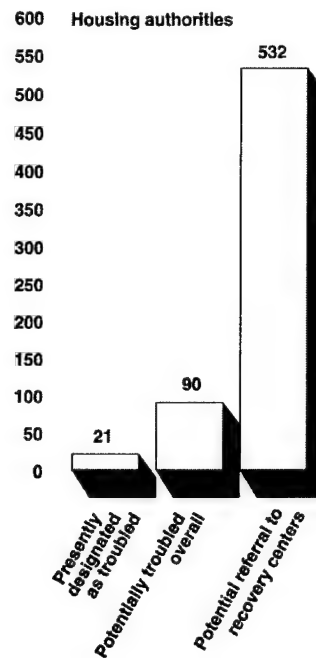
physical and financial condition were also taken into account. As a result, only 24 housing authorities remained troubled in the management area alone under all four indicators.

Source: GAO analysis of HUD fiscal year 2001 PHAS scores.

The number of housing authorities designated as troubled changes over time as housing authorities take corrective action and resolve their problems or demonstrate to HUD through an appeals process that the troubled designation is inappropriate. Thus, although our analysis identified 45 housing authorities with troubled management as of September 30, 2001, this number declined as the authorities worked with the recovery centers or field offices to correct their problems. As of December 3, 2001, 21 authorities were designated as troubled under the management indicator.

When HUD fully implements PHAS, the number of troubled designations is likely to increase and the workload for the recovery centers therefore could rise dramatically. According to HUD's regulations, housing authorities that are designated as either troubled overall or troubled in one area shall be referred to a recovery center. In practice, HUD field offices sometimes continue to oversee troubled housing authorities, but most of those with troubled management have been referred to the recovery centers. For fiscal year 2001, for example, 20 of the 21 troubled authorities were assigned to the recovery centers. Figure 3 shows how the recovery centers' workload could increase if all of the authorities that would be designated under all four indicators as troubled overall or troubled in one area in fiscal year 2001 were referred to the centers.

**Figure 3: Potential Increase in Recovery Centers' Workload Following Full Implementation of PHAS**



Source: GAO analysis of HUD data.

HUD did not believe that such potentially large increases in workload would be a problem for the recovery centers. According to HUD, each center is staffed to monitor between 150 and 175 housing authorities, and not all authorities would be referred to the centers at the same time. In addition, HUD noted that the field offices can continue to monitor some troubled housing authorities.

## HUD Is Revising PHAS before Implementing It Fully

Before implementing PHAS fully, HUD is obtaining input from stakeholders and revising the system in an effort to make it more responsive to the stakeholders' concerns. In 2001, HUD met with representatives of housing authorities, residents, housing advocacy groups, and other government agencies to make interim modifications to PHAS. These stakeholders recommended a number of changes that they believed would improve the system. For example, they recommended that the physical inspection

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score, which was based on five components,<sup>10</sup> be based on the two components that have the greatest impact on residents' living conditions—that is, building systems and dwelling units. The stakeholders also recommended some changes for the management operations indicator and suggested that the resident service and satisfaction indicator continue to be worth 10 points and be counted in the total scores and performance designations for public housing authorities.

HUD plans to move forward with the modifications to PHAS, using the stakeholders' recommendations as guidelines, and to complete the modifications in time to use the scores for all four indicators to evaluate public housing authorities' performance in fiscal year 2002. HUD intends to continue the 100-point scoring system and to maintain the overall troubled designation for any housing authority that scores less than 60 points. In addition, according to HUD, public housing authorities designated as high performers (those scoring 90 points or more) will receive regulatory relief and bonus points for funding competition. Finally, HUD plans further improvements to PHAS over the long term that could lead to an assessment system that, according to HUD officials, would differ dramatically from the current system.

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### **PIC Does Not Classify All Troubled Housing Authorities as High Risk**

HUD field offices use the PIC risk assessment to identify housing authorities under their jurisdiction that are having serious problems and to devise monitoring strategies to address those problems before the authorities are designated as troubled. The risk assessment takes three factors into account and assigns different weights to each of them. Specifically, the risk assessment considers

- the total PHAS score, weighted at 50 percent;
- funding issues that lie outside the scope of PHAS, including funds that are available but not obligated and the number and complexity of active programs, weighted at 30 percent; and
- compliance issues identified in audit reports, weighted at 20 percent.

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<sup>10</sup>The five components of the physical inspection score are the site, building exteriors, building systems, common areas, and dwelling units.

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In addition, PIC includes data on “qualitative factors” that HUD field offices provide for housing authorities that they plan to visit. Such factors include major audit findings, concerns raised by another group or department about a housing authority, court actions or situations that restrict a housing authority’s management, significant and repeated delays in submitting required information, and claims by tenants that something was done improperly. These factors provide additional context for the risk assessments.

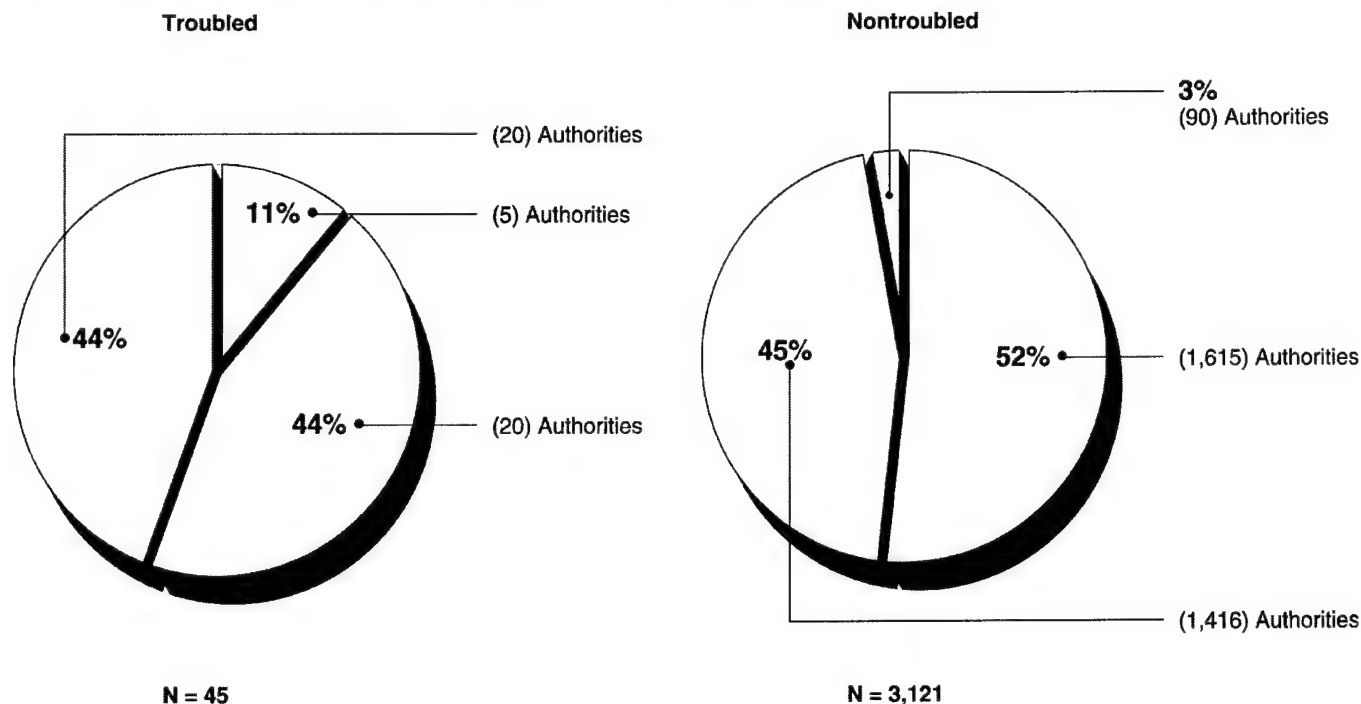
The PIC risk assessment uses a 100-point scale to reflect the housing authorities’ PHAS scores, funding issues, and compliance issues as weighted in the risk assessment:

- Low risk: 0 to 44 points
- Moderate risk: 45 to 64 points
- High risk: 65 to 100 points

According to our analysis, the vast majority of housing authorities, whether troubled or nontroubled, were classified as low risk or high risk. Figure 3 shows the breakdown, by risk level, for the 45 housing authorities that our analysis identified as troubled and for the 3,121 housing authorities that were nontroubled as of September 30, 2001.



Figure 4: Risk Levels of Troubled and Nontroubled Housing Authorities, Fiscal Year 2001



Source: GAO analysis of HUD data.

The classification of any troubled housing authority as low risk is inconsistent with the severity of the problems indicated by the troubled designation. This inconsistency would probably not affect troubled authorities assigned to recovery centers, since they would be compelled to take corrective action, regardless of their risk level. However, troubled authorities that are not assigned to recovery centers but remain under field office supervision might not receive sufficient monitoring attention if they were classified as low risk because the field offices target their monitoring resources according to risk level. The one troubled low-risk authority we identified that was not assigned to a recovery center was scheduled to receive routine monitoring—the lowest level of monitoring. This housing authority may not receive the attention it needs from HUD to correct the problems that led to its troubled designation. HUD officials could not explain the apparent anomaly, but, according to one official, all troubled housing authorities should be considered high risk. HUD plans to address this flaw in the risk assessment.

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## At Some Nontroubled Housing Authorities, Unsatisfactory Living Conditions Stemmed from Management Deficiencies

The five public housing authorities we visited, which have not been designated as troubled under PHAS but have been classified as moderate to high risk under PIC,<sup>11</sup> exhibited a wide range of problems. However, many developments at these authorities were well or adequately maintained. The problems at other developments varied in their severity and, in the worst cases, created unsafe and unsanitary living conditions for residents. These problems are, in large part, the results of management deficiencies, including poor procurement practices, fraud and abuse, and weak management of maintenance and modernization programs. Such deficiencies—which can themselves be traced to frequent management and staff turnover, insufficient training, and weak internal controls—divert funds from their intended uses and create repair and capital improvement backlogs. Comprehensive data are not readily available to determine whether conditions at the housing authorities we visited are representative of conditions at nontroubled high-risk authorities nationwide. However, our analysis of PIC data for fiscal year 2001 shows that factors indicative of management problems—such as staff with insufficient skills, disagreements between the housing board and management, and major audit findings (including noncompliance with procurement requirements, fraud and abuse, and ineffective management of modernization programs)—are more likely to be found at nontroubled high-risk housing authorities than at nontroubled low-risk housing authorities (see app. II).

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## Property and Living Conditions Vary, but Deterioration Creates Health and Safety Hazards for Residents of Some Properties

At the five public housing authorities we visited, property and living conditions varied, often from one development to another within the same authority. At the Puerto Rico Public Housing Administration, for instance, some developments were well-maintained, as shown in figure 5, while others had deteriorated to varying degrees, as shown in figure 6. Figures 7 and 8 illustrate health (termites and mold and mildew) and safety (exposed wiring and open electric meters) hazards. Figures 9 through 13 illustrate some of the problems we observed at the other public housing authorities we visited.

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<sup>11</sup>The Camden Housing Authority would have been designated as troubled under PHAS but was not because it was in administrative receivership; however, according to HUD, the authority was briefly designated as troubled while it was in receivership. The four other nontroubled authorities we visited were the Chicago Housing Authority, the Housing Authority of New Orleans, the Puerto Rico Public Housing Administration, and the San Francisco Housing Authority.

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**Figure 5: Examples of Well-Maintained Public Housing, Puerto Rico Public Housing Administration**

Puerto Rico  
Public Housing Administration,  
well-maintained  
public housing developments

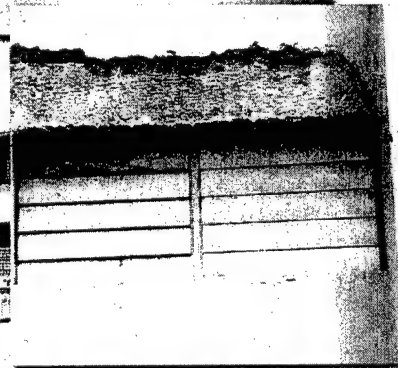
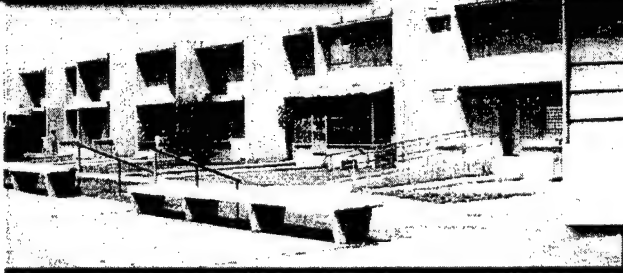
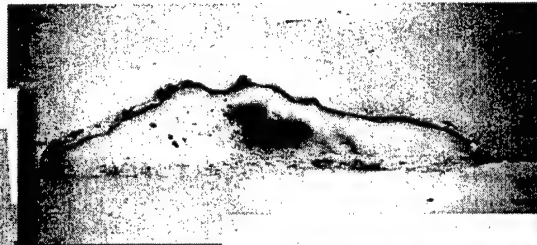


Source: GAO photographs taken during site visits to five housing authorities.

**Figure 6: Examples of Deteriorated Public Housing, Puerto Rico Public Housing Administration**



Puerto Rico  
Public Housing Administration,  
water and sewage



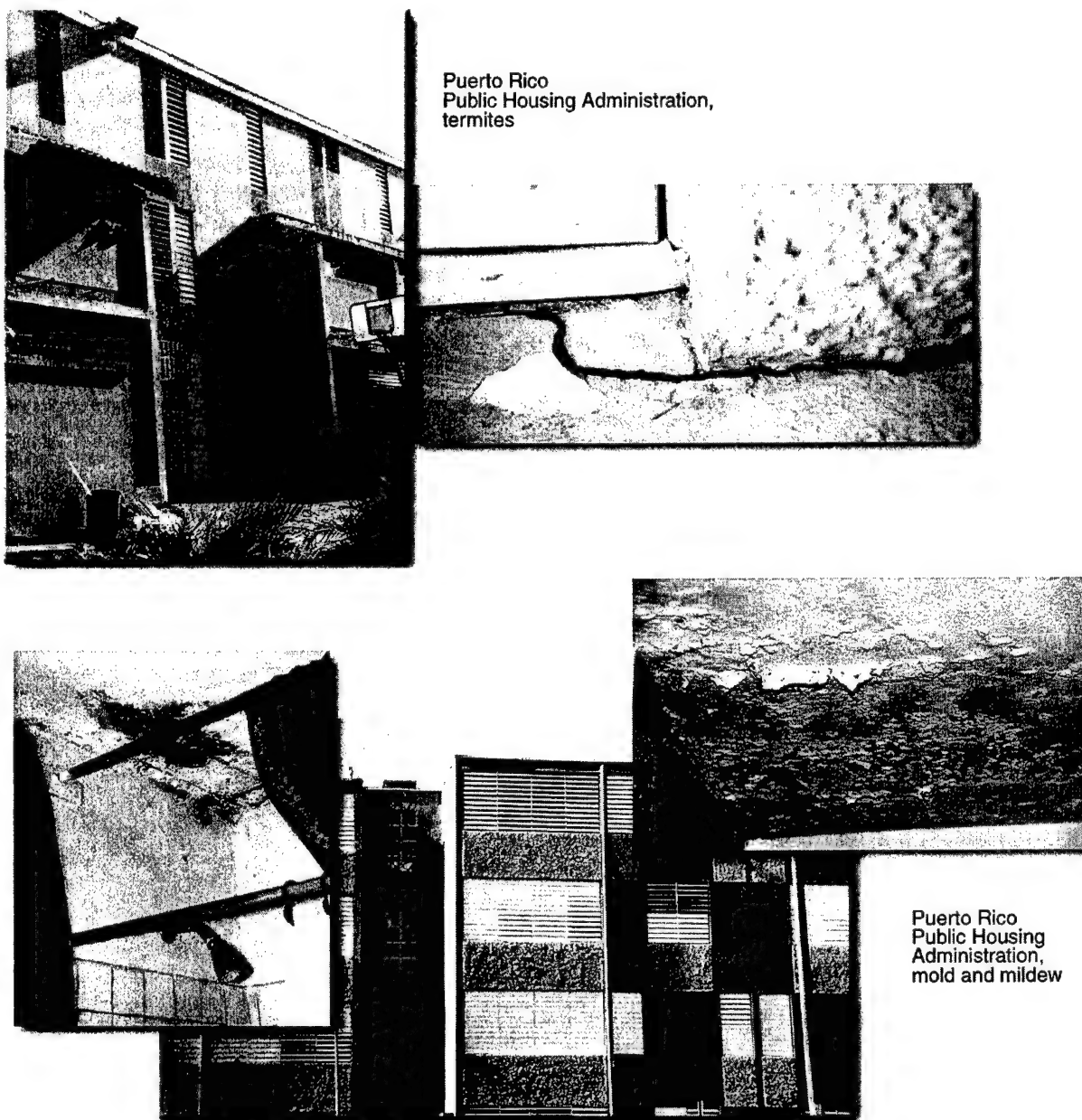
Puerto Rico  
Public Housing Administration,  
cracked walls

Source: GAO photographs taken during site visits to five housing authorities.

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**Figure 7: Examples of Health Hazards in Public Housing, Puerto Rico Public Housing Administration**



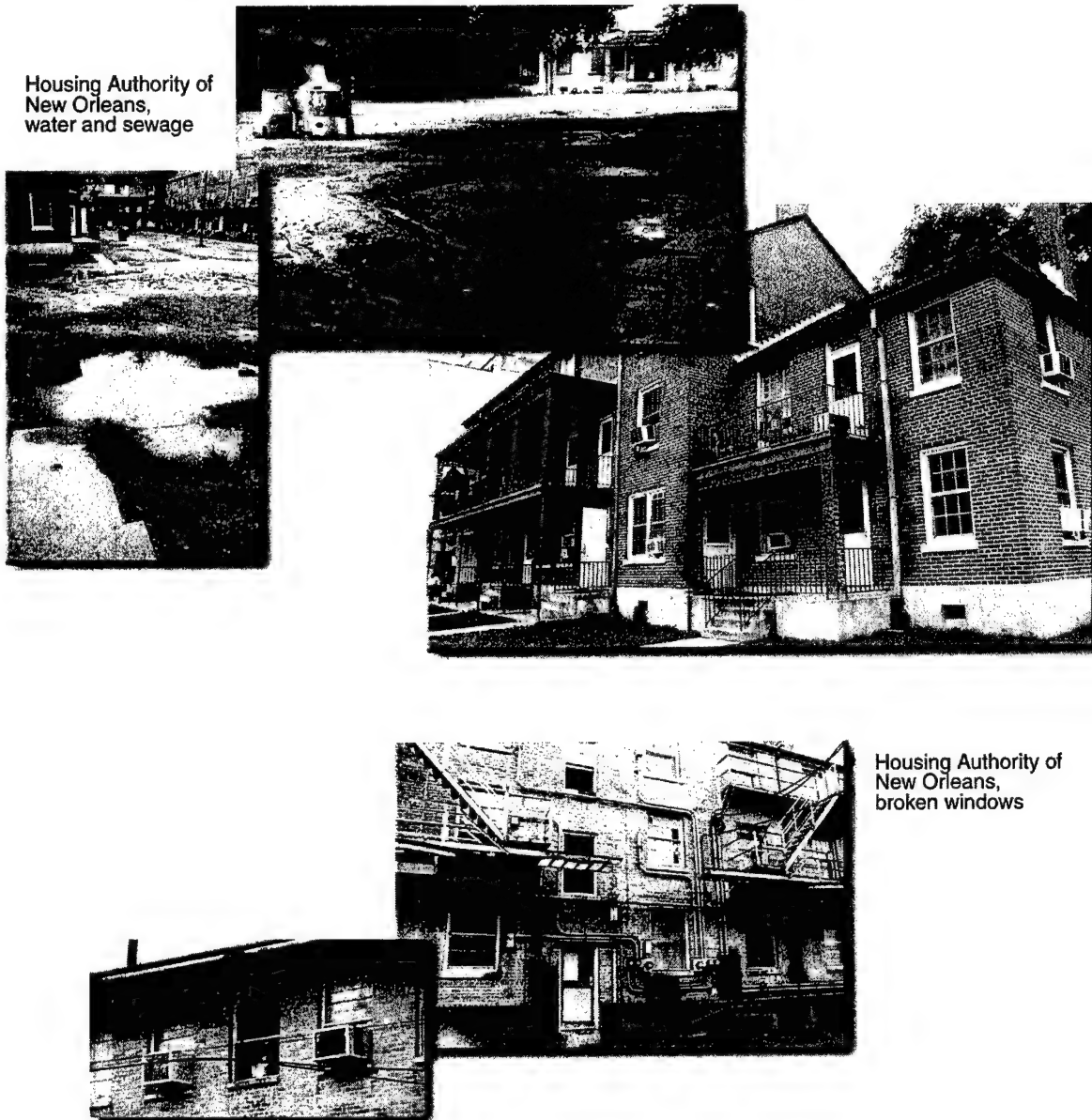
Source: GAO photographs taken during site visits to five housing authorities.

**Figure 8: Examples of Safety Hazards, Puerto Rico Public Housing Administration**



Source: GAO photographs taken during site visits to five housing authorities.

**Figure 9: Examples of Public Housing Problems, Housing Authority of New Orleans**



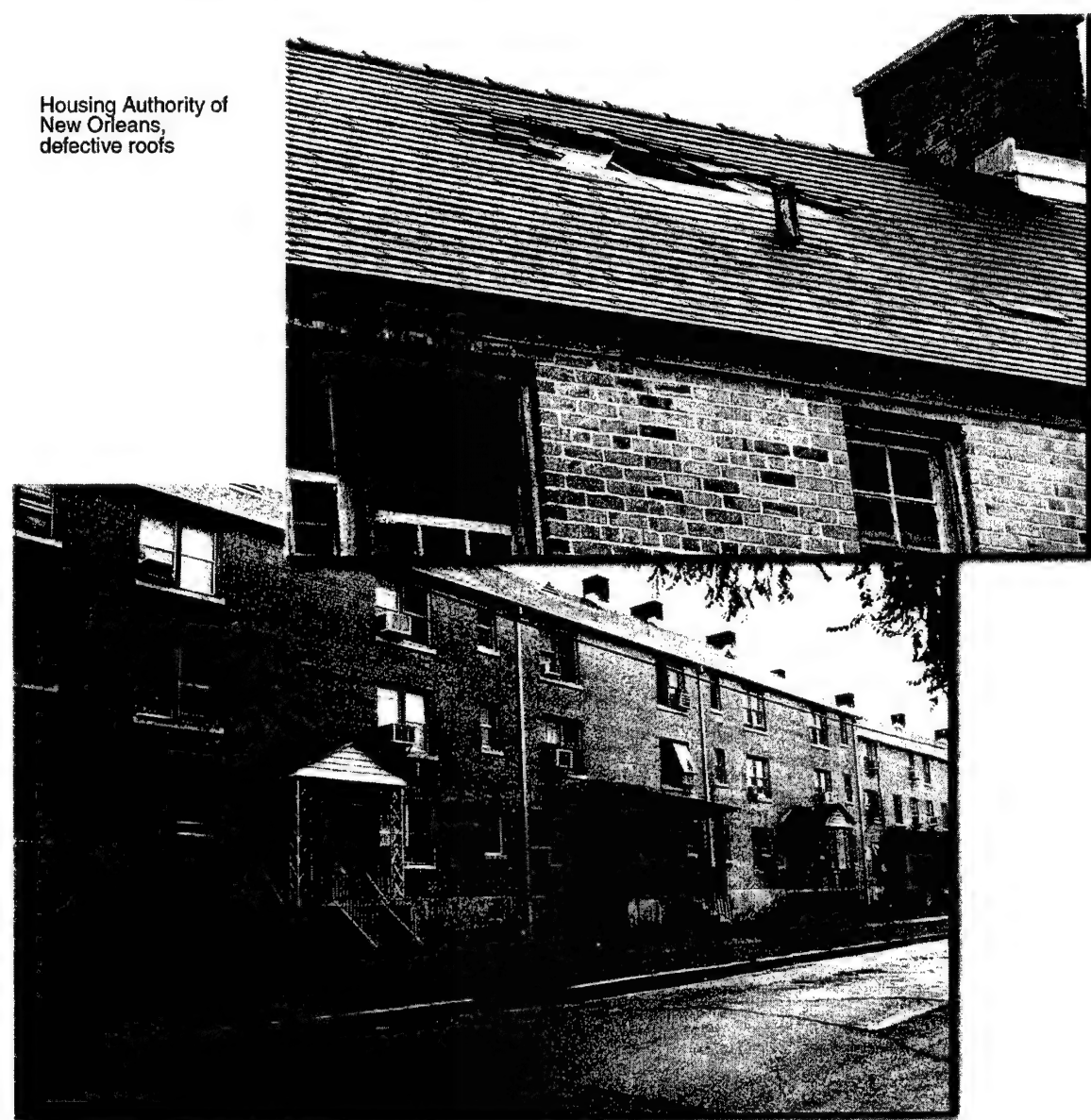
Source: GAO photographs taken during site visits to five housing authorities.



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**Figure 10: Examples of Public Housing Problems, Housing Authority of New Orleans**



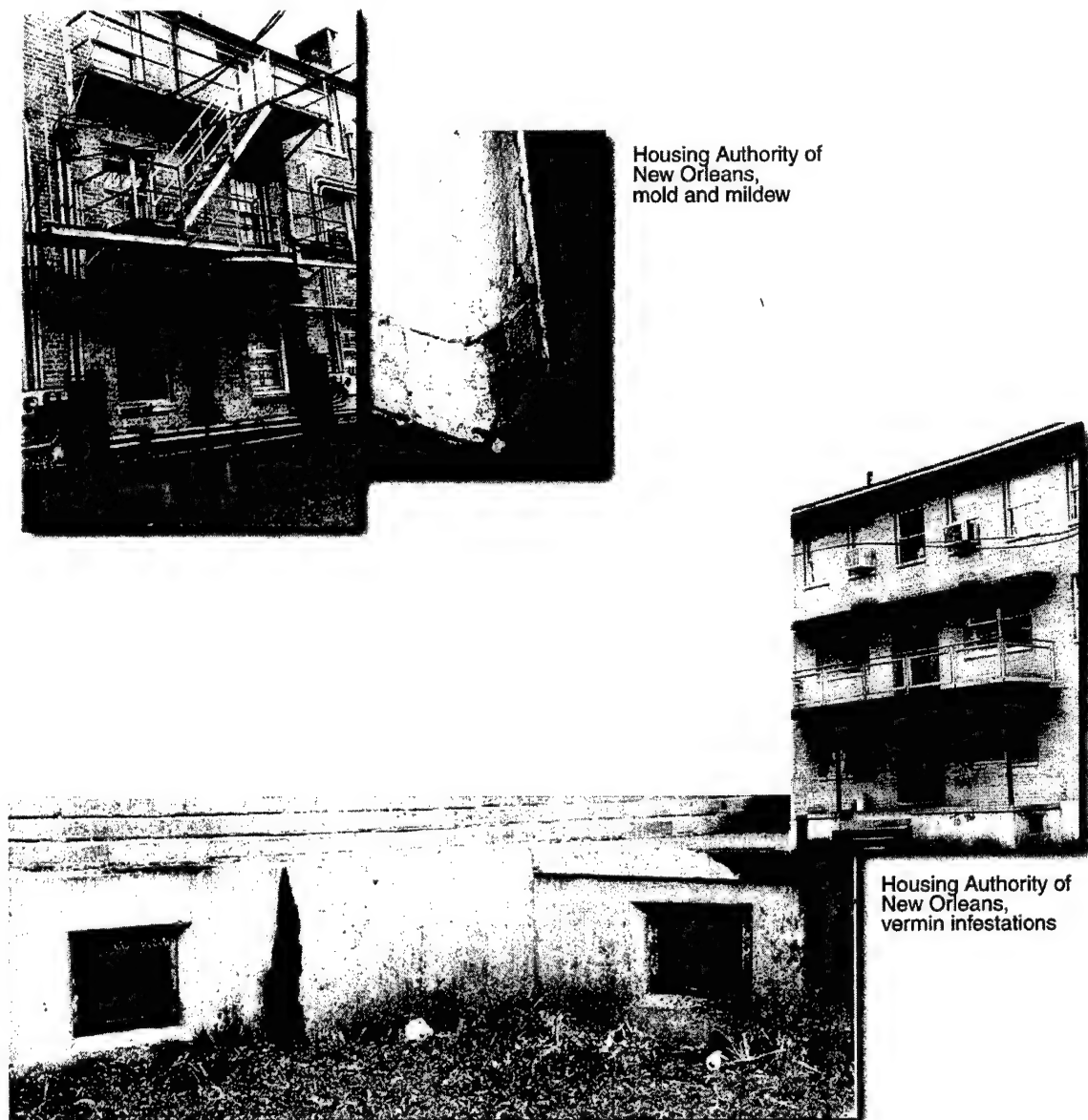
Source: GAO photographs taken during site visits to five housing authorities.



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**Figure 11: Examples of Public Housing Problems, Housing Authority of New Orleans**



Source: GAO photographs taken during site visits to five housing authorities.

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**Figure 12: Examples of Public Housing Problems, Chicago Housing Authority**

Chicago Housing Authority,  
deteriorated stairs  
and hallways



Source: GAO photographs taken during site visits to five housing authorities.

**Figure 13: Examples of Public Housing Problems, Chicago Housing Authority**



Chicago  
Housing Authority,  
broken windows

Source: GAO photographs taken during site visits to five housing authorities.

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The physical problems we observed at the five housing authorities we visited stemmed in large part from deficiencies in the quality of the housing authorities' management. At the five authorities we visited, problems such as poor procurement practices, fraud and abuse, and weak administration of maintenance and modernization programs contributed to the physical problems we observed at some developments.

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### Poor Procurement Practices Waste Funds and Delay Projects

Poor procurement practices have been a problem at most of the housing authorities we visited. Before being placed into receivership, for example, the Camden Housing Authority failed to comply with its own procurement policies and federal procurement regulations.<sup>12</sup> Noncompliance with federal procurement practices was also found at the San Francisco Housing Authority,<sup>13</sup> in March 2000 as well as at the Puerto Rico Public Housing Administration, where the Inspector General classified as ineligible about \$21.8 million of \$39 million in procurements reviewed.<sup>14</sup> In addition, the Inspector General found that the Puerto Rico housing authority did not effectively monitor the activities of its management agents or maintain adequate property management and related procurement documents.

Sound procurement plans, policies, and procedures are crucial for public housing authorities, particularly those that have largely replaced their own staff with contractor staff. At the Chicago Housing Authority, for example, the staff has declined from about 2,600 to 500 employees, and, in Puerto Rico, fewer than 100 of 4,500 housing authority employees remain. These remaining staff are responsible for hiring and overseeing the contractors. However, the authorities often lack adequate procurement plans, policies, and procedures; continuity in management and staffing; and managers and staff with the training needed to oversee and implement procurements effectively.

At the Puerto Rico Public Housing Administration, a lack of adequate procurement policies and procedures led to many of the housing

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<sup>12</sup>HUD's *Inspector General Audit Report* (96-NY-204-1004, July 24, 1996).

<sup>13</sup>*San Francisco Housing Authority Low-Income and Section 8 Housing Programs*, San Francisco, California (00-SF-201-1001, Mar. 31, 2000).

<sup>14</sup>*Puerto Rico Public Housing Administration Procurement Management*, San Juan, Puerto Rico (00-AT-201-1003, Mar. 6, 2000).

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authority's procurement problems. For example, the authority's procurement regulations, policies, and procedures did not comply with federal requirements. As a result, the authority was not implementing federal requirements for planning, soliciting, and awarding purchase orders and contracts. As early as 1994, the Inspector General and HUD program officials began recommending that the housing authority develop and issue a procurement manual and improve its procurement records.

High turnover rates and other changes in roles and responsibilities also contribute to procurement problems. At some of the housing authorities we visited, frequent changes in managers and staff were among the causes of uncertainty over who was in charge of awarding, reviewing, and monitoring contracts. The Housing Authority of New Orleans, for example, has had four different one-person housing boards of directors since 1997 and three executive directors in the past 6 years. In part because of these many changes in leadership, it was not clear who was finally responsible for approving contracts. Similarly, at the San Francisco Housing Authority, there appeared to be confusion and some tension over whether the board of commissioners, the recovery center, the field office, or HUD headquarters had the final word in approving and reviewing contracts. According to the current acting executive director, the San Francisco Housing Authority has had 10 different executive directors in the past 10 years.

Insufficient training for managers and policymakers, as well as for staff, is another cause of procurement problems. For example, the HUD Inspector General found that the San Francisco Housing Authority's management and board of commissioners did not follow federal procurement policies and procedures and recommended that HUD sanction the executive director and the board. Later, one of the HUD recovery centers provided procurement training to the board and began reviewing all contracts over \$50,000. Similarly, the Inspector General found that procurement problems in Puerto Rico existed because the housing authority's management disregarded federal requirements and therefore was incapable of administering the procurement program. In October 2000, HUD headquarters sent a team to Puerto Rico to oversee the procurement process and provide technical assistance.

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## Fraud and Abuse Divert Funds from Their Intended Uses

Fraud and abuse have contributed to deterioration at the Puerto Rico Public Housing Administration, reducing the funds available for maintenance and modernization. In November 2001, for example, the Inspector General reported that criminal investigations of fraud and abuse had resulted in 26 indictments and 24 guilty pleas. In 1 case, a consultant at the housing authority, who reviewed payment vouchers and approved payments to management agents, conspired with employees of a management company to embezzle over \$1 million. The Inspector General attributed this and other problems with fraud and abuse at the housing authority to poor internal controls, noting as early as March 2000 that the authority did not have effective management control systems to deter waste, fraud, and abuse. In June, the Inspector General pointed out that the parties who embezzled \$1 million were able to commit this fraud because the housing authority did not have internal controls in place to prevent the consultant from solely approving unauthorized checks to the management company.

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## Weak Management of Maintenance and Modernization Programs Creates Backlogs

Weak management of maintenance and modernization programs was a problem at several of the housing authorities we visited. For instance, the Housing Authority of New Orleans failed to make effective use of the funds it received for maintenance and modernization. For years, it made no progress toward implementing plans to modernize its rapidly deteriorating properties, and maintenance backlogs grew. The Puerto Rico housing authority had difficulty monitoring contracts. As a result, the physical condition of housing developments varied widely from one contracted management agent to another. According to residents, some management agents were adequately maintaining their developments and responding to residents' concerns, while others were allowing their developments to deteriorate. Even though the housing authority had a contractor-monitoring unit, a HUD official told us that the housing authority was not adequately monitoring its contractors.

The problems in managing maintenance and modernization programs, like the poor procurement practices, often stemmed from high turnover rates and insufficient training. For example, HUD attributed many of the delays in carrying out repair and modernization efforts at the New Orleans housing authority to a lack of continuity in the authority's management. In addition, according to the current executive director, interference from parties outside of the housing authority limited its ability to follow through on many of its plans. Furthermore, in New Orleans and in Puerto Rico

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many housing authority staff were let go, and the in-house staff who remained to hire and supervise contractor staff were not always trained in monitoring and oversight.

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### Factors Associated with Management Problems Are Found at Nontroubled High-Risk Housing Authorities Nationwide

HUD does not maintain data on the types of problems found at public housing authorities according to their PHAS designation and PIC risk classification. Therefore, we cannot determine whether the problems we observed at the five nontroubled high-risk housing authorities we visited are representative of problems at such housing authorities nationwide. However, HUD field offices do report certain "qualitative factors" that, in their view, may indicate problems with the quality of a housing authority's management. They use these factors, which are entered into PIC, to target housing authorities for on-site monitoring. According to PIC, these factors were more frequently reported for nontroubled high-risk housing authorities than for nontroubled low-risk authorities. While the percentages of authorities where these factors were reported were generally small for both groups (under 5 percent for all but two factors), the percentages were consistently higher for the high-risk group. The most frequently reported factors were insufficient staff skills; significant and repeated delays in submitting required information; reports of tenant complaints; the number, size, or complexity of new programs; issues or disagreements between the board and management; and major audit findings such as noncompliance with federal procurement requirements, theft, fraud, and abuse. (App. II lists all of the factors and the percentages of housing authorities where the factors were reported.)

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### HUD Has Several Options for Addressing Housing Authorities' Problems

HUD has several options for improving a housing authority's performance, from providing technical assistance, to imposing sanctions, to taking over the authority's operations. In some instances, HUD may enter into special agreements with housing authorities, giving them the flexibility to address unique problems. Although implementing these options can bring about positive changes at housing authorities, it may not completely or permanently solve long-standing problems. For this review, we did not evaluate the effectiveness of HUD's efforts to resolve management problems at public housing authorities, but we are planning future reviews.

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## HUD May Provide Technical Assistance to Address Problems

HUD may provide technical assistance to address chronic problems at housing authorities even when the authorities have not been designated as troubled under PHAS. The Quality Housing and Work Responsibility Act of 1998 and regulations authorize HUD to provide technical assistance, training, or both to authorities that are at risk of being designated as troubled as well as to those that have not been so designated.<sup>15</sup> For those that have not been designated as troubled, this assistance is contingent upon agreement or may even be requested by the housing authority. Technical assistance may involve developing policies for the housing authority, streamlining its operations, designing or improving its organizational structure, or training its staff. HUD may provide this assistance continuously, by stationing a team at the housing authority, or periodically, by visiting the authority from time to time. HUD may also hire a contractor to provide the assistance or make funding available for the authority to hire technical assistance contractors.

HUD tailors its assistance to the problems at a housing authority, often attempting to improve the authority's ability to manage an aspect of its operations or administer one of its programs. For example, HUD put together a team led by its field office-based procurement specialist to assist the Puerto Rico Public Housing Administration in developing policies and procedures for its procurement office that will allow it to comply with federal procurement regulations. Similarly, HUD provided grant funding for the Chicago Housing Authority to contract with a local university for assistance in streamlining its procurement processes. At the financially troubled San Francisco Housing Authority, staff from the Memphis recovery center are helping the authority find ways to reduce expenses and balance its budget. Recovery center staff are also helping the housing authority address findings from an audit by HUD's Inspector General. At small housing authorities, HUD assists in building overall management capacity, usually by sending a team to completely revamp an authority's policies and procedures.

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<sup>15</sup>Before the introduction of PHMAP, HUD field offices evaluated the performance of public housing authorities and determined whether they were troubled according to criteria in HUD's monitoring handbook. However, this determination was not systematic and was not necessarily done each year. Not until PHMAP took effect in fiscal year 1992 was the troubled designation based on a systematic yearly assessment of housing authorities' operations.



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## HUD May Apply Sanctions or Intervene in a Housing Authority's Operations to Correct Problems

When HUD is unable to address the problems at a housing authority cooperatively, it has the authority to intervene or apply several different sanctions at varying levels of severity as follows:

- HUD may review a housing authority's expenditures and place restrictions and conditions on them. For example, at the financially troubled San Francisco Housing Authority, HUD recovery center officials review all staff salaries and procurement contracts in excess of \$50,000.
- HUD can remove housing authority officials through a suspension, debarment, or limited denial of participation if the authority's poor performance is directly related to the actions of these officials.
  - A suspension disqualifies an individual from participation in HUD programs for a time because of evidence of crime, fraud, or serious improper conduct.
  - A debarment excludes an individual from participation in HUD programs for criminal offenses or other violations.
  - A limited denial of participation prevents an individual from participating in the HUD program under which the cause arose for up to 12 months. HUD can apply this sanction even if no criminal activity is suspected if it determines that an individual's removal is in the best interest of the government.
- HUD may impose an alternative management arrangement when it finds ongoing management weaknesses in some or all of a housing authority's operations. The alternative management can be provided by a private management company, a resident management corporation, a management team from another housing authority, or some other arrangement for effecting change at the housing authority. For example, at the Housing Authority of New Orleans, the secretary of HUD and the mayor of New Orleans entered into a cooperative endeavor agreement. This agreement established the role of an executive monitor, a HUD appointee and representative who would oversee the operations of the housing authority. The agreement also replaced the board of commissioners with a contractor.
- HUD may declare a housing authority in substantial default or in breach of its annual contributions contract with HUD. According to HUD's

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guidance, this measure should be considered only when (1) the housing authority's performance problems are severe, pervasive, and systemic; (2) the authority consistently and vigorously resists problem-solving efforts; and (3) other remedies have been exhausted or are determined inappropriate because of the urgent need to take action. Under these circumstances, HUD can arrange for an alternative form of management, including the designation of a receiver, to remedy the housing authority's problems.

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### HUD May Name a Receiver to Take Over a Housing Authority's Operations

When problems are long-standing, severe, or both, HUD may seek a receivership if a housing authority is in substantial default of its contractual obligations to HUD. For a housing authority that has been designated as troubled on the basis of its PHAS scores, HUD must seek an administrative or a judicial receivership if the authority has not substantially improved its performance within 2 years. Under an administrative receivership, HUD appoints either a contractor or a HUD employee to take over the housing authority's management. Under a judicial receivership, a judge makes the appointment. According to HUD officials, a receivership is a good option when a housing authority is very poorly run and is under local political pressure that is impeding HUD's efforts to bring about the authority's recovery.

The Camden Housing Authority had long-standing problems, an inability to provide decent, safe, and sanitary housing; numerous instances of noncompliance with federal regulations; poor internal controls; or political influence, that were preventing improvements at the authority. Consequently, HUD determined that the housing authority had breached its annual contributions contract and acted to take over the housing authority's operations. HUD and the mayor of Camden agreed in August 1997 on an administrative receivership, under which HUD assumed responsibility for the housing authority's management. HUD hired consultants to administer the housing authority's financial management and modernization programs, focused on improving properties' maintenance and reducing the vacancy rate, and established a security partnership with local police and set up a housing authority security force to reduce crime. Although the housing authority is still under administrative receivership, HUD has reduced the consultants' role and an administrator currently manages the authority.

Although there is no requirement for HUD and a housing authority to focus corrective actions on raising the authority's PHAS scores, the Camden

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Housing Authority's administrator has done so with positive results, according to HUD officials. From fiscal years 1999 to 2000, the management operations indicator rose from a troubled level of 16 to a standard level of 23, and the financial operations indicator rose from a failing score of 15 to a passing score of 19. In addition, several modernization projects have been completed (see fig. 14) or are under way (see fig. 15); crime rates have declined; and, according to the residents, maintenance has vastly improved.

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**Figure 14: Completed Modernization Project at the Camden Housing Authority**



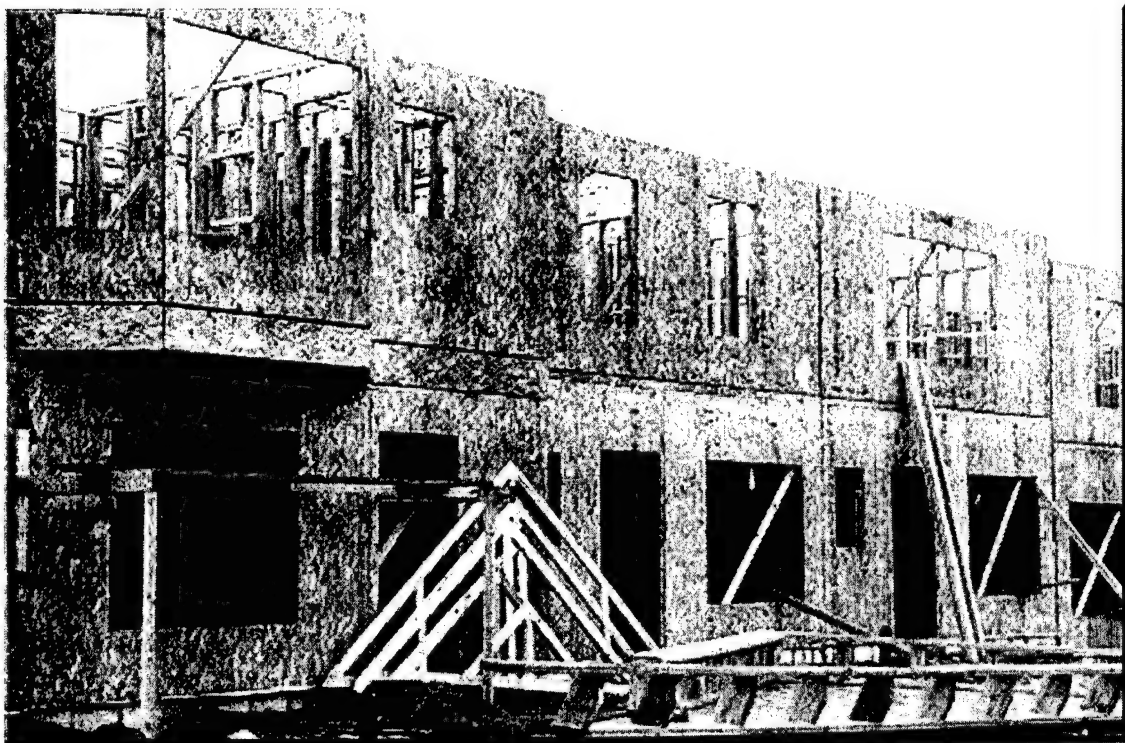
Camden Housing Authority,  
completed modernization project

Source: GAO photographs taken during site visits to five housing authorities.

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**Figure 15: Modernization Project in Progress at the Camden Housing Authority**



Camden Housing Authority,  
modernization project in progress

Source: GAO photographs taken during site visits to five housing authorities.

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### HUD May Enter into Special Agreements to Address Unique Problems at Housing Authorities

HUD has given some housing authorities the flexibility to address unusual challenges. At the Chicago Housing Authority, for example, HUD waived some of its regulations for 10 years and allowed the authority to consolidate its capital and operating funding into a single block grant. HUD approved these steps in February 2000 under the housing authority's Plan for Transformation—a plan to completely revamp Chicago public housing. The plan was designed to address the poor physical condition of the housing stock; the poor design of the developments, which encouraged crime; and the high concentration of extremely poor families. The

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authority plans to solve these problems by developing low-rise public housing structures in mixed-income communities. In part, the plan responds to a mandate from HUD calling for the housing authority to demolish distressed public housing units and either provide the residents with tenant-based assistance or relocate them to other public housing developments. The plan calls for the demolition of 18,000 units and the redevelopment and rehabilitation of 25,000 units. HUD approved the Chicago Housing Authority's plan under its Moving to Work Program. The program was designed to give housing authorities the flexibility to design and test cost-effective approaches for providing housing assistance, to assist public housing residents in obtaining employment and becoming self-sufficient, and to increase housing choices for low-income families. The flexibility that HUD has given this housing authority has allowed it to undertake a large-scale redevelopment project. HUD has entered into similar agreements at 22 other housing authorities and has entered into negotiations with 5 other authorities.

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### Effectiveness and Sustainability of HUD's Interventions Are Uncertain

Despite the variety of actions available to improve public housing authorities' performance, these actions have not always fully resolved problems or precluded their recurrence. For example, HUD sanctioned the Puerto Rico Public Housing Administration in 1991, freezing its unobligated funds, because of serious financial, administrative, and project maintenance problems. A decade later, the HUD Inspector General found similar problems at the housing authority, including a lack of management controls, inadequate procurement and contract management procedures, and an inability to administer the authority's HOPE VI project. HUD's actions also have not resolved problems at the Housing Authority of New Orleans. A designated HUD representative has been monitoring the progress of the housing authority since 1996, yet many of the authority's past problems persist, including the poor physical condition of the housing stock and delays in the completion of modernization work. The San Francisco Housing Authority is also struggling with problems even after extensive HUD assistance. Despite the work of a HUD recovery team between 1996 and 1997 and ongoing monitoring by the recovery center, the housing authority still has significant financial difficulties. Lastly, while HUD officials agree that the Camden Housing Authority has improved significantly and has addressed many of its past deficiencies by targeting corrective actions to problems identified through PHAS, both HUD and the authority's current administration are concerned about the ability of the housing authority to sustain its current level of performance when it

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reverts to local control. We are planning to review the nature and outcomes of housing authorities' corrective actions.

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## Conclusions

Because HUD has not yet fully implemented PHAS, it is too early to tell how effective the new system will be in identifying and providing for the correction of long-standing problems at public housing authorities. But when HUD fully implements PHAS, it should have a broader and more reliable basis for evaluating housing authorities' performance. As a result, full implementation should increase the potential for PHAS to identify the authorities' problems.

It would be consistent for public housing authorities that are designated as troubled overall or troubled in one area to be classified as high risk to ensure that they receive sufficient monitoring attention from HUD. While most troubled housing authorities are assigned to troubled agency recovery centers where they receive close monitoring regardless of their risk classification, those troubled authorities that remain under field office supervision and are classified as low risk may not be scheduled for sufficient monitoring. When HUD fully implements PHAS and designates many more authorities as troubled, this problem could become more widespread.

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## Recommendation for Executive Action

To help ensure that troubled public housing authorities receive sufficient monitoring, we recommend that the secretary of housing and urban development revise the PIC risk assessment to automatically classify all troubled housing authorities as high risk so that they receive the correct level of HUD monitoring.

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## Agency Comments

We provided a draft of this report to HUD for its review and comment. In e-mails dated January 31, February 1, and February 4, 2002, incorporating comments from the deputy assistant secretary for the Office of Troubled Agency Recovery, the deputy assistant secretary for the Office of Administration and Budget, and the acting director of field operations, Office of Public and Indian Housing, and a REAC official, HUD provided background information on the PIC risk assessment process and indicated that it planned to revise the PIC rating scheme to ensure that all troubled public housing authorities are designated as high risk. In addition, HUD

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provided technical comments, which we incorporated in this report as appropriate.

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## Scope and Methodology

To accomplish our objectives, we conducted case studies of five public housing authorities: (1) the Camden Housing Authority, (2) the Chicago Housing Authority, (3) the Housing Authority of New Orleans, (4) the Puerto Rico Public Housing Administration, and (5) the San Francisco Housing Authority. With the exception of the Puerto Rico Public Housing Administration, we selected these housing authorities because they were known to pose high risks but had not been designated as troubled at the time of our review and they were geographically diverse. We selected the Puerto Rico Public Housing Administration because its history of significant problems had generated congressional interest although HUD only considered it to be of moderate risk.

To identify HUD's criteria for designating housing authorities as troubled under PHAS and for classifying them as high risk under PIC, we reviewed HUD's guidance on public housing assessment criteria. This included our review of PHAS and the status of its implementation. We also received a briefing on PIC from HUD officials.

To identify the kinds of problems found at housing authorities that have not been designated as troubled under PHAS but have been classified as high risk under PIC, we interviewed HUD officials, representatives of the public housing authorities, and tenant representatives at our five case study authorities. In addition, we visited public housing developments at these authorities and took photographs to document the kinds of problems we observed. The developments we visited were of different types, had different PHAS scores, and varied in the severity of their problems.

To identify HUD's options for addressing problems at housing authorities, regardless of whether they have been designated as troubled, we examined the corrective actions taken at each of our case study authorities. We discussed these options with HUD officials at headquarters and at the hub offices near the five authorities. In addition, we obtained HUD's guidelines for these options, relevant correspondence between HUD and the housing authorities, and status reports sent by the housing authorities to HUD.

We used PHAS data, obtained from REAC, and PHAS and PIC data, obtained from HUD's Office of Public and Indian Housing, to examine the kinds of problems found at nontroubled high-risk public housing

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authorities and at public housing authorities in general. The data in both PHAS and PIC are collected for each public housing authority once a year on a rolling basis, by quarter. Thus, at any point in time, the data are the most current that have been collected, but conditions may have changed at some public housing authorities since the data were collected. We assessed the reliability of HUD's REAC and PIC data by (1) reviewing existing information about the REAC and PIC systems and data, (2) interviewing agency officials knowledgeable about the data, and (3) performing electronic testing of the data elements used in this report. We determined that the data were reliable enough for the purposes of this report.

The data we obtained from REAC were for the end of fiscal year 2000 and contained the total PHAS scores and the scores for each of the four PHAS indicators and their subindicators. The data we obtained from PIC were for the end of fiscal year 2001. These data included both the PHAS scores (the total scores and the scores for the four indicators) for fiscal year 2001 that PIC received from REAC and the PIC risk assessment scores. At the time that we received the PIC data, HUD was updating its method of calculating risk; thus, the risk assessment scores used in our analysis are derived according to the method HUD told us it is most likely to use in calculating future scores.

Using the PHAS scores for fiscal year 2001 and HUD's scoring system, we determined how many public housing authorities should be designated as troubled under both HUD's current and planned approaches. Under the current approach, we used the score for the management operations indicator alone, as HUD has done to date, and classified housing authorities as troubled if they scored less than 18 out of 30 possible points (60 percent). Under the approach HUD plans to use in fiscal year 2002, we used the total PHAS score and the scores for all four indicators, classifying housing authorities as troubled if they scored less than 60 percent overall or less than 60 percent on more than one of the major indicators (physical condition, financial condition, and management operations). We based our calculations for both approaches on rounded scores, following HUD's example. Our analysis did not exclude scores of zero for any indicator, even though a zero may indicate that a housing authority was late in submitting the applicable data, never submitted the data, or in rare instances was not required to submit the data. Additionally, PHAS scores may not always be updated immediately in PIC.



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We used the results of the PIC risk assessment and HUD's scoring system to determine whether housing authorities posed low (0-44 points), moderate (45-64 points), or high (65-100 points) risks. Then we grouped the authorities according to their status (troubled or nontroubled) and risk level (low, moderate, or high) and determined what quality factors were present at authorities in each of the six resulting groups. To identify the kinds of problems found at nontroubled high-risk authorities, we paid particular attention to the quality factors present at authorities in this group, comparing them with the quality factors present at nontroubled low-risk authorities. See appendix II for the results of our analyses.

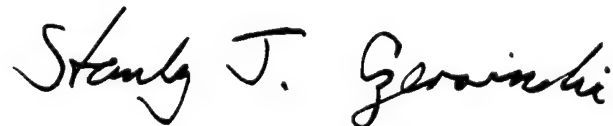
We used REAC data for fiscal year 2000 and PIC data for fiscal year 2001 to identify the kinds of problems found at all public housing authorities. See appendix I for the results of our analyses of PHAS subindicators and PIC quality factors.

We conducted our work from January 2001 through January 2002 in accordance with generally accepted government auditing standards.

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As agreed with your office, we are sending copies of this report to the chairman and ranking minority member, Senate Committee on Banking, Housing, and Urban Affairs; the chairman, Subcommittee on Housing and Transportation, Senate Committee on Banking, Housing, and Urban Affairs; the chairman and ranking minority member, House Committee on Financial Services; and the chairwoman and ranking minority member, Subcommittee on Housing and Community Opportunity, House Committee on Financial Services. We will also send copies to the secretary of housing and urban development and the director of the Office of Management and Budget. Please contact me at (202) 512-6520 if you have any questions about this report. Key contacts and contributors to this assignment are listed in appendix VIII.

Sincerely yours,



Stanley J. Czerwinski  
Director, Physical Infrastructure Issues

# Extent to Which Problems Occur at All Public Housing Authorities

To determine the extent to which problems occur at all public housing authorities, we analyzed the most recent data available for these authorities from the Department of Housing and Urban Development (HUD). HUD maintains these data in two databases. The data from one database, managed by HUD's Real Estate Assessment Center (REAC), were for the end of fiscal year 2000. The data from the other database, HUD's Public and Indian Housing Information Center (PIC), were for the end of fiscal year 2001. For both of these databases, information is collected for each public housing authority once a year on a rolling basis, by quarter. Thus, at any point in time, the data are the most current that have been collected, but conditions may have changed at some housing authorities since the data were collected.

## REAC's Data for the End of Fiscal Year 2000

REAC maintains the data used to assess the performance of public housing authorities under HUD's new assessment system, the Public Housing Assessment System (PHAS). From these data, REAC generates a total PHAS score for each housing authority. This total score is made up of scores for four indicators of performance—physical condition, financial condition, management operations, and resident service and satisfaction. The score for the physical condition indicator reflects the results of all physical inspections performed at the housing authority. The score for each of the other three indicators is made up of scores for several subindicators. For example, the score for the resident service and satisfaction indicator is the sum of the scores for subindicators that measure residents' satisfaction as gauged by their responses to a survey, housing authorities' completion of a plan for implementing the survey, and housing authorities' development of a follow-up plan to address issues arising from the survey.

We examined the scores for each subindicator for 3,166 public housing authorities to identify any widespread problems with their performance.<sup>16</sup> For several of the subindicators for which data had been collected for the entire fiscal year,<sup>17</sup> the scores were low, indicating possible problems.

<sup>16</sup>The data we received from REAC did not include the PHAS scores for 1 of the 3,167 housing authorities.

<sup>17</sup>Although we received some data for management operations subindicators measuring vacant units, unit turnaround, rent uncollected, security, and economic self-sufficiency, we did not include these measures in our analysis because they were not used consistently for the entire fiscal year.

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**Appendix I**  
**Extent to Which Problems Occur at All Public**  
**Housing Authorities**

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However, we could not determine from information in the database whether the low scores indicated problems with the housing authorities' performance or problems with their filing the required data with HUD.<sup>18</sup>

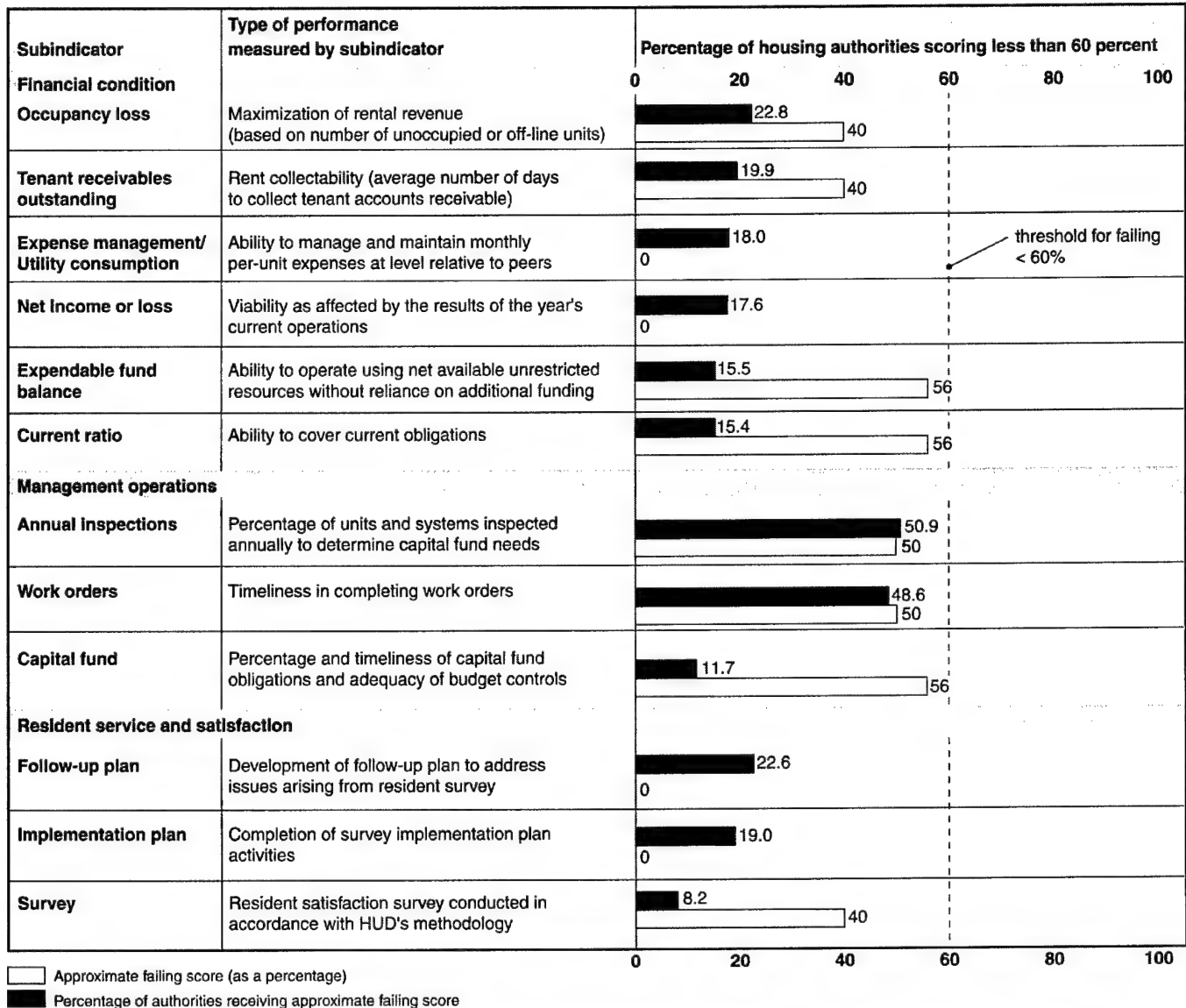
Because PHAS considers a score of less than 60 percent as failing, we examined the extent to which housing authorities received scores below 60 percent for each subindicator. Since the maximum scores for the subindicators ranged from 2 to 9, the failing percentages varied from 0 to 56 percent. The scores were particularly low for the annual inspections and work orders subindicators under the management operations indicator. The results of our analysis are shown in figure 16.

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<sup>18</sup>Not filing the required data is in itself a management problem.

**Appendix I  
Extent to Which Problems Occur at All Public  
Housing Authorities**

**Figure 16: Percentages of Public Housing Authorities Receiving Scores of Less than 60 Percent for PHAS Subindicators**



Note: The maximum possible score for these subindicators varies from 2 to 9; thus, the closest approximation of less than 60 percent is different for each indicator. Subindicators with an approximate failing percentage represented as 0 had maximum scores of only 2 or 3, and the closest percentage less than 60 was 0.

Source: GAO analysis of HUD data.

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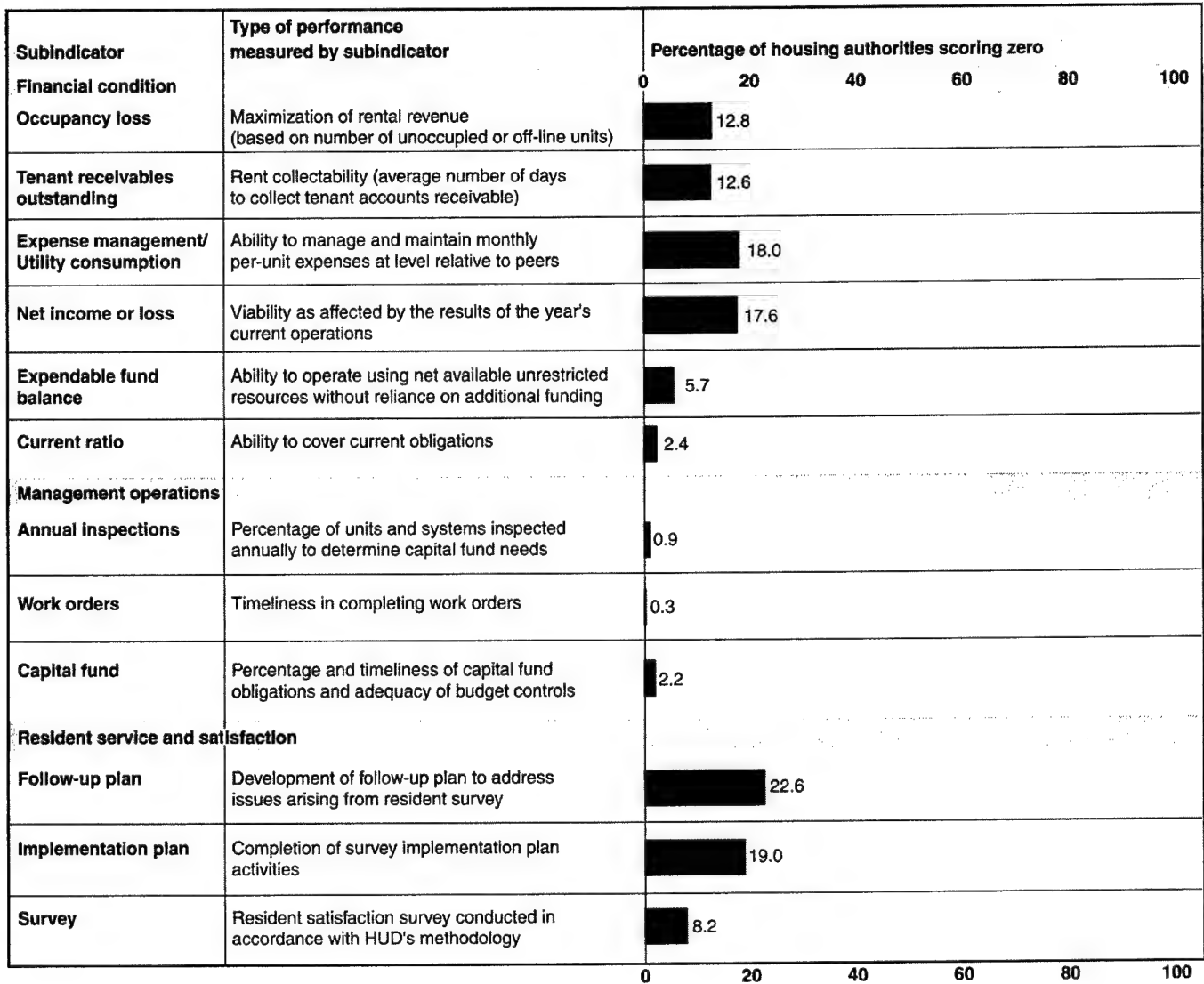
**Appendix I**  
**Extent to Which Problems Occur at All Public**  
**Housing Authorities**

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For several subindicators, particularly within the financial condition and resident service and satisfaction indicators, a large percentage of housing authorities received a score of zero. Again, the information in the database did not allow us to determine whether this score indicated a serious performance problem or a problem with filing the required data. Figure 17 shows the percentages of housing authorities that received scores of zero for the subindicators.

**Appendix I**  
**Extent to Which Problems Occur at All Public**  
**Housing Authorities**

**Figure 17: Percentages of Public Housing Authorities Receiving Scores of Zero for PHAS Subindicators**



Source: GAO analysis of HUD data.

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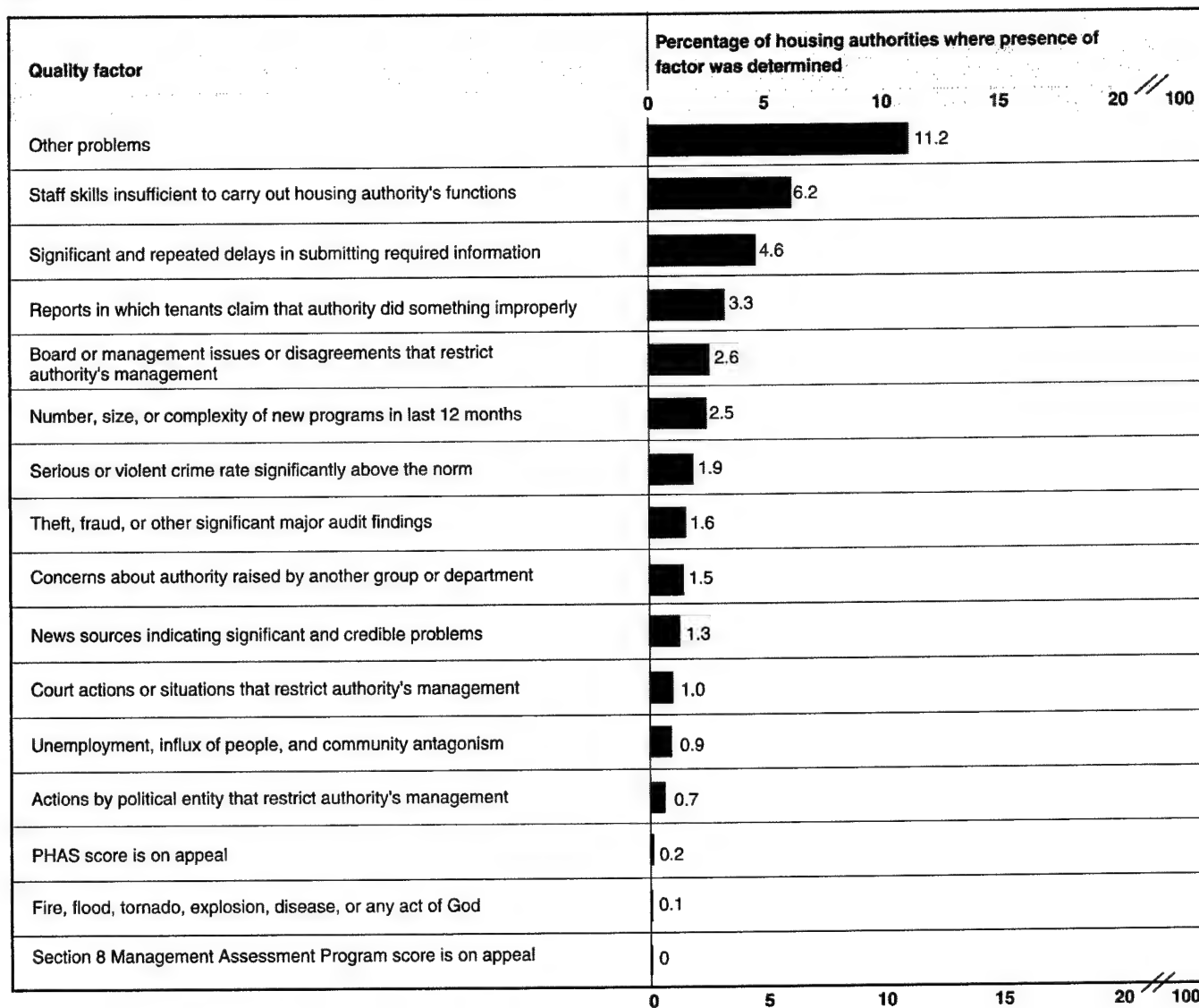
## PIC Data for the End of Fiscal Year 2001

HUD's Office of Public and Indian Housing, which administers the public housing program, uses PIC, an Internet-based information system, to generate risk assessments for the nation's public housing authorities. These risk assessments use the total PHAS score and information about funding and compliance issues to classify housing authorities as high, moderate, or low risk. HUD's 43 field offices can then use the results of these assessments to plan their annual monitoring strategies.

Besides generating risk assessment scores, PIC includes information on the presence of certain factors associated with the quality of a housing authority's operations. Figure 18 lists the factors—all of which are indicative of potential problems—and the percentage of housing authorities where, according to PIC, the factors were present. As the figure indicates, the factors most frequently identified as present (apart from "other problems") were insufficient staff skills, delays in submitting required information, and reports from tenants of something done improperly by the housing authority. The database does not define what is in the "other problems" category.

**Appendix I**  
**Extent to Which Problems Occur at All Public**  
**Housing Authorities**

**Figure 18: Presence of Factors Indicating Potential Problems with the Quality of Housing Authorities' Management**



Source: GAO analysis of HUD data.



# Problems at Nontroubled High-Risk Public Housing Authorities

To identify the kinds of problems found at public housing authorities that HUD has not designated as troubled but has classified as high risk, we applied HUD's criteria for determining housing authorities' status (troubled or nontroubled) and risk level (high, moderate, or low) to the nation's 3,166 public housing authorities.<sup>19</sup> First, as HUD has done to date, we considered the scores for the PHAS management operations indicator alone and determined which housing authorities met HUD's criteria for troubled (those that scored less than 18 out of 30 possible points) and nontroubled (those that scored 18 or more points). We then considered the PIC risk assessment scores and determined what risk levels would be assigned to the troubled and nontroubled housing authorities under HUD's scoring system. Under PIC, housing authorities are classified as low risk if they score between 0 and 44, moderate risk if they score between 45 and 64, and high risk if they score between 65 and 100. All data were for the end of fiscal year 2001. Our analysis produced six groups of housing authorities, the largest of which were the nontroubled high-risk (1,416) and the nontroubled low-risk (1,615) groups.

After grouping the nation's housing authorities according to their status and risk level, we attempted to identify the kinds of problems found at nontroubled high-risk authorities by determining what quality factors were associated with this group. For comparative purposes, we also determined what quality factors were associated with the nontroubled low-risk authorities.<sup>20</sup> As discussed in appendix I, the quality factors are indicative of potential problems. Table 2 identifies the percentage of housing authorities in each group where, according to PIC, the factors were present. When we compared our results for the two groups, we found that, in all but one instance,<sup>21</sup> the quality factors were more commonly present for the nontroubled high-risk authorities than for the nontroubled low-risk authorities. The largest differences between the two groups were for other problems; reports where tenants claimed that the housing authority did something improperly; and the number, size, or complexity of new

<sup>19</sup>Because the data we received from PIC did not include the risk assessment scores for 1 of the 3,167 housing authorities, we eliminated this authority from our analysis.

<sup>20</sup>Because fewer than 5 percent of the nontroubled housing authorities were classified as moderate risk, it was inappropriate to compare the results for them with the results for the other nontroubled categories.

<sup>21</sup>No housing authorities in either the nontroubled high-risk or the nontroubled low-risk group had a Section 8 Management Assessment Program score on appeal reported.

**Appendix II**  
**Problems at Nontroubled High-Risk Public**  
**Housing Authorities**

programs. The factors are ordered in the table according to their frequency at nontroubled high-risk housing authorities.

**Table 2: Quality Factors Associated with Nontroubled High-Risk and Nontroubled Low-Risk Housing Authorities**

<b>Quality factor</b>	<b>High risk (n=1,416)</b>	<b>Low risk (n=1,615)</b>
Other problems	16.4	6.7
Staff skills insufficient to carry out housing authority's functions	6.9	5.2
Significant and repeated delays in submitting required information	4.9	4.1
Reports in which tenants claim that authority did something improperly	4.5	1.9
Number, size, or complexity of new programs in last 12 months	4.4	0.6
Board or management issues or disagreements that restrict authority's management	3.2	1.9
Theft, fraud, or other significant major audit findings	2.5	0.5
News sources indicating significant and credible problems	2.3	0.3
Serious or violent crime rate significantly above the norm	2.1	1.2
Court actions or situations that restrict authority's management	2.0	0.1
Concerns about authority raised by another group or department	1.7	1.2
Unemployment, influx of people, and community antagonism	1.2	0.4
Actions by political entity that restrict authority's management	0.8	0.3
PHAS score is on appeal	0.4	0
Fire, flood, tornado, explosion, disease, or any act of God	0.1	0
Section 8 Management Assessment Program score is on appeal	0	0

Source: GAO analysis of HUD data.

# Camden Housing Authority

The Camden Housing Authority was established on April 20, 1938. It consists of nine developments with 1,540 units. In addition, it administers 804 Section 8 units and 93 Homeownership Project units, which are available for purchase by residents. For fiscal year 2001, the authority received an operating subsidy of \$8.1 million and capital funding of \$4.8 million. Over the years, it has also received about \$80 million for two ongoing HOPE VI projects—\$42.1 million in fiscal year 1993, \$3.1 million in fiscal year 1998, and \$35 million in fiscal year 2000. The authority is currently under administrative receivership because it breached its annual contributions contract. The director of the New York Office of Public Housing is the HUD secretary's designee and functions in lieu of the Camden Housing Board of Commissioners, with the responsibilities and authority that would normally be assigned to the board.

## Historical Problems

Management turnover has long been a problem at the Camden Housing Authority. Since 1992, the authority has had nine executive directors and many changes in the membership and leadership of its board of commissioners, including five different chairpersons. Past administrators attempted to respond to a broad range of issues and constituencies—including local, state, and federal officials; community leaders; residents; special interest groups; and the press—instead of setting the foundations for substantive change. This reactive management style left the residents confused and disheartened, the staff demoralized, and the public housing authority open to continuous criticism. In almost every key functional area, the authority's systems were weak, nonexistent, or poorly administered. In addition, the authority lacked clear goals, a strategic plan, and strong leadership; most management decisions were subject to political pressure; and the authority's workforce lacked the technical competencies needed to operate a large property management organization.

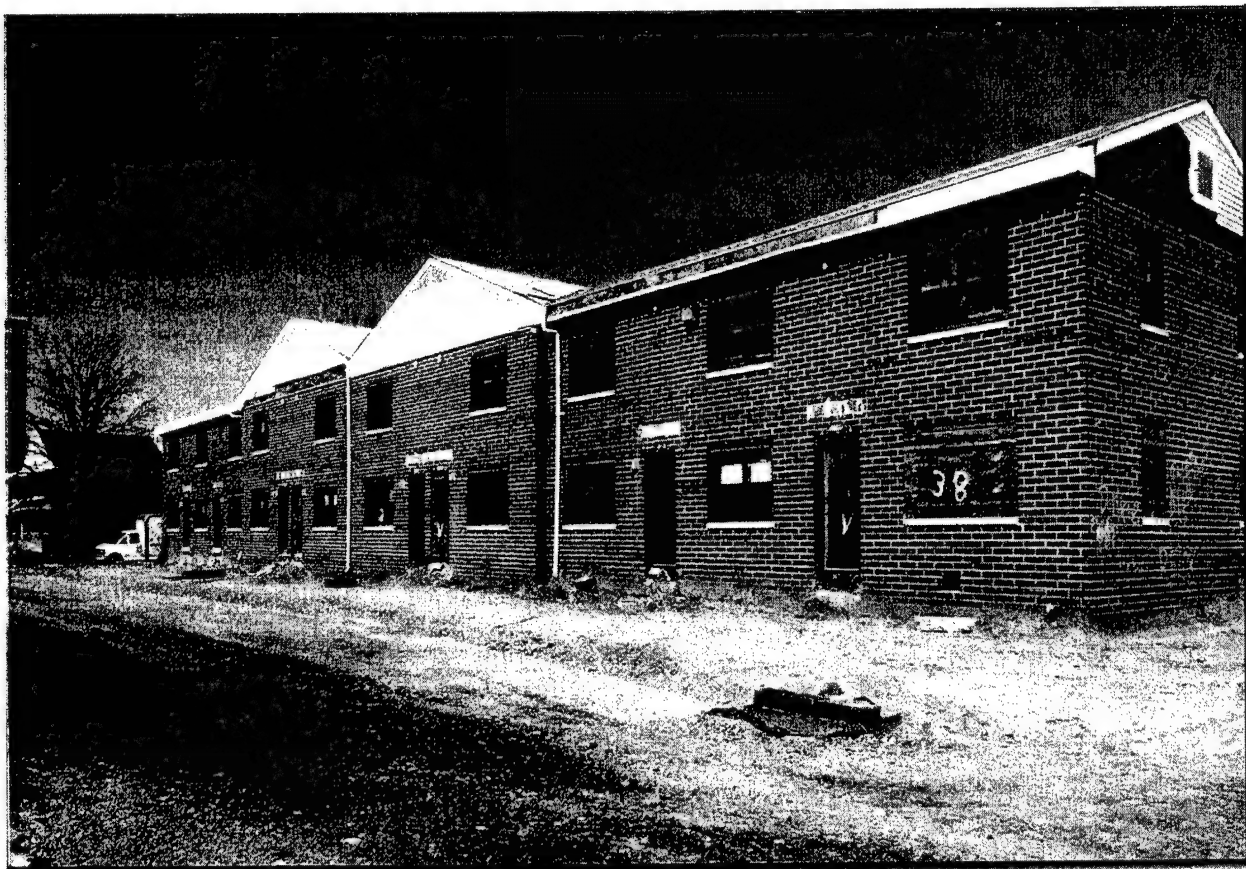
In addition, in July 1996 the HUD Inspector General reported that the Camden Housing Authority was not complying with many of the public housing program's requirements and regulations. Specifically, the report indicated that the housing authority was, among other things,

- generally not providing decent, safe, and sanitary housing to tenants;
- not complying with its procurement policies or with federal procurement regulations;

- improperly hiring staff and providing salary increases;
- improperly paying for vacations and overtime;
- incurring unnecessary costs;
- inadequately controlling the disbursement of funds; and
- inadequately controlling its equipment inventory.

On August 4, 1997, HUD found that the Camden Housing Authority had substantially breached its annual contributions contract, seized the authority's assets, appointed a transitional administrator, and appointed a secretary's designee to assume the role and responsibilities of the board of commissioners until the authority could be returned to a fully functioning board.

Figure 19: Example of a Deteriorated Public Housing Development at the Camden Housing Authority



Camden Housing Authority, deteriorated public housing development

Source: GAO photographs taken during site visits to five housing authorities.

## HUD's Role and Corrective Actions

After taking over the Camden Housing Authority, HUD installed a consultant to act as a transitional executive director and start the recovery process. This individual assessed conditions at the public housing authority, finding many of the problems previously identified by the Inspector General, and formulated a recovery plan. The initial approach was to gain the confidence of residents through meetings with them and to

ensure that staff were properly trained and placed in positions for which they were qualified. Several short-term initiatives were instituted to clean and repair the housing projects, improve management's relationship with residents, and improve the authority's organizational structure. In addition, the authority developed a long-term improvement strategy that focused on modernization efforts, property management and maintenance, financial management, administration, security, resident initiatives, and strategic planning.

HUD awarded two technical assistance grants that totaled \$1.1 million for consulting services to manage the authority's day-to-day operations as well as to provide technical assistance to the transitional administrator and staff. In November 1997, HUD decided to downsize the consultant team and hire permanent management staff in order to build permanent capacity and stabilize the recovery effort for the long term. On June 3, 1998, the transitional administrator resigned and a permanent executive director took control of the public housing authority. Since that time, there have been three executive directors. Throughout the recovery process, HUD's New Jersey State Office has provided intensive oversight and technical assistance to the public housing authority to ensure an efficient and effective recovery process.

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## Current Status and Challenges

Under the current executive director, the public housing authority has achieved many goals and successes in several operational areas. For example, the public housing authority has

- privatized its financial management and modernization functions until internal capacity could be built;
- hired consultants to conduct an extensive training program and reassigned its strongest employees to prominent positions;
- rehabilitated 148 units authoritywide;
- submitted an annual plan for the first time;
- initiated several capital improvement projects;
- reduced crime by improving security in its developments; and

- 
- instituted a skills training program for residents, many of whom have subsequently been hired by the housing authority or the rehabilitation and modernization contractors.
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**Figure 20: Example of a Rehabilitated Public Housing Development at the Camden Housing Authority**



Camden Housing Authority, rehabilitated public housing development

Source: GAO photographs taken during site visits to five housing authorities.

In addition, the executive director established a PHAS coordinator who made a concerted effort to raise the authority's PHAS scores. The results

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**Appendix III**  
**Camden Housing Authority**

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have been positive. For example, the management operations indicator rose from a troubled level of 16 in fiscal year 1999 to a standard level of 23 in fiscal year 2000, and the financial operations indicator rose from a failing score of 15 in fiscal year 1999 to a passing score of 19 in 2000.

Despite these improvements, the public housing authority has not yet fully recovered. Furthermore, there is a real concern within the authority's current administration regarding whether the existing reforms can be sustained and the authority can continue to move forward after the Camden housing board resumes control.



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# Puerto Rico Public Housing Administration

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Public housing programs started in Puerto Rico in 1938. In an effort to reorganize its public housing, in 1957, the Puerto Rico government created the Urban Renewal and Housing Corporation—the current housing authority's predecessor. Then, in 1989, the government created the Puerto Rico Public Housing Administration (PRPHA) within the Puerto Rico Department of Housing. For a brief period, the government operated both housing authorities before dissolving the Puerto Rico Urban Renewal and Housing Corporation in 1991 and transferring its public housing program to PRPHA. An administrator who is appointed by the Puerto Rico secretary of housing directs PRPHA.

PRPHA is the second largest public housing authority in the nation,<sup>22</sup> with 338 developments and 56,834 units. Fifteen private management companies and eight resident management corporations manage the developments. In fiscal year 2001, it received about \$270 million from the federal government, including \$175.2 million for its Capital Fund Program, \$80.8 million for its operations, and \$14 million for its Drug Elimination Program. In addition, PRPHA continued to obligate funds from a \$50 million HOPE VI grant that it received in fiscal year 1994.

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## Historical Problems

Over the years, PRPHA has experienced many management problems, although it is not currently considered troubled under PHAS. In 1981, HUD designated the authority's predecessor as "financially troubled." Later, in 1985, because of serious financial, administrative, and project maintenance problems, HUD designated the agency as "operationally troubled." In 1991, HUD severely sanctioned the agency by freezing about \$308 million of unobligated funds, and in 1992, the governor of Puerto Rico transferred the housing authority's modernization and development programs to the Puerto Rico Building Authority, directing it to act as an agent for the housing authority. In addition, private management companies were hired to manage the housing developments, and the housing authority's staff was reduced from over 4,500 employees to fewer than 100. The housing authority's role was limited to accounting for and reporting on the use of federal funds and ensuring that the management agents were fulfilling their contractual responsibilities. HUD continued to view the housing authority as troubled until December 1996, when it lifted the troubled rating and restored control of the modernization program to the authority. However, a

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<sup>22</sup>The New York City Housing Authority is the nation's largest public housing authority.

year later, HUD designated the modernization program as troubled because of financial management problems and the need for corrective actions.

Single audits<sup>23</sup> and HUD Inspector General reports have disclosed other serious problems at PRPHA, including noncompliance with procurement standards and associated management control weaknesses. From fiscal years 1992 to 1997, single audit reports repeatedly cited the housing authority for not following federal procurement requirements. The reports also disclosed numerous instances of poor management controls over disbursements and recommended that millions of dollars in ineligible costs be recovered. Financial statement audits for fiscal years 1993 through 1996 resulted in a disclaimer of opinion because of the poor condition of the authority's accounting system and internal control weaknesses. Furthermore, these audits were all done in 1998—the authority had not contracted for a single audit since 1991. In 1997, the authority received a clean opinion,<sup>24</sup> even though the auditors found its internal controls to be inadequate, and, in 1998 and 1999, it again received clean opinions despite misappropriations of funds during those 2 years. For example, an Inspector General's audit of the authority's fiscal year 1999 procurement activities disclosed that the authority had improperly withdrawn and used about \$17 million in public housing operating funds for ineligible disaster relief expenses. Additionally, according to the audit, the authority had improperly withdrawn and transferred \$1 million in Comprehensive Grant Program funds to the Puerto Rico Economic Development Bank for loans to public housing residents.

In March 2000, the Inspector General issued an audit report on the housing authority's procurement management. The audit's objectives had been to determine whether the authority (1) had procurement policies and procedures that complied with HUD's requirements, (2) followed the policies and procedures, (3) adequately determined the need for goods and services, and (4) had adequate management controls to ensure the receipt of quality goods and services and preclude duplicate payments. According

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<sup>23</sup>"Single audits" are annual financial audits conducted by independent public accounting firms.

<sup>24</sup>Receipt of a "clean opinion," according to the auditors, indicates that the authority's financial statements fairly present the financial position of the organization and the results of its operations and its cash flows for the year, in conformity with generally accepted accounting principles.

to the report, the authority's procurement practices and controls fell short, as follows:

- PRPHA did not comply with federal and agency procurement requirements and did not maintain control over its central office procurement activities. For example, it bought 12,000 electric stoves at a cost of \$2,604,000 without going through the proper bidding process, 21,425 hot water heaters at a cost of \$2,365,437 even though the heaters could not be installed in many of the projects because the units had only one water line, and a desktop computer at the excessive price of \$8,200.
- The housing authority also paid about \$4.9 million more than necessary for two professional services contracts valued at almost \$14 million, because it issued the contracts without competition and a comprehensive cost and price analysis.
- The authority did not have effective management controls to deter waste, abuse, and fraud.
- The authority did not maintain adequate property management and related procurement documents.

The Inspector General recommended, among other things, that HUD consider declaring the authority in substantial default and placing it on a reimbursement basis for funding. The authority "vehemently" disagreed with many aspects of the report, including many factual findings and recommendations, and claimed, among other things, that the report failed to recognize efforts already in place to improve operations.

In addition, since 1998, a number of former public housing authority and HUD employees and contractors have been under investigation for embezzling federal housing funds, conspiracy, bribery, and money laundering. These investigations have resulted in 26 indictments and 24 guilty pleas.

Finally, on March 30, 2001, the Inspector General reported a total breakdown of the housing authority's administration of its HOPE VI revitalization project. The report indicated that the authority lacked effective management and accounting controls over its federal funds and did not effectively monitor the activities of its project manager. Furthermore, the Inspector General identified \$5.4 million of ineligible expenditures and \$10.5 million of unsupported costs.

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## HUD's Role and Corrective Actions

Since many of PRPHA's problems were in the procurement area, HUD sent a procurement team to Puerto Rico in October 2000 to oversee the procurement process and provide technical assistance. Specifically, the team assessed how well the housing authority was addressing the Inspector General's findings and recommendations, evaluated the procurement practices, provided staff training, and reviewed documents and manuals. The team spent 2 weeks a month on-site. In addition, HUD sent a 10-member management team to Puerto Rico to provide technical assistance in a variety of areas. The team expects the housing authority to make tangible improvements over a specified time frame. HUD will continue to evaluate the authority's progress and determine whether more drastic intervention, such as placing the authority into receivership, is warranted. Lastly, HUD planned to add seven staff to its Puerto Rico field office to enhance its capacity to monitor the authority and provide technical assistance.

To resolve problems with PRPHA's HOPE VI program, the governor of Puerto Rico agreed on July 6, 2001, to transfer the program to HUD, including all assets and functions necessary to complete and lease all of the developments in the program. As a result, HUD now has

- the ability to direct and hire the staff—including housing authority staff—needed to complete the HOPE VI program,
- the right to propose resolutions of claims against the housing authority arising under the program, and
- the ability to direct and administer contracts that pertain to the program.

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## Current Status and Challenges

PRPHA's new administration has many initiatives under way to improve operations and internal controls and to resolve many of the issues identified by the HUD Inspector General. For example, the administration centralized procurement functions in one office and developed a procurement plan and manual, centralized all modernization functions that were formerly decentralized, and created a new central auditing office to review the authority's operations and coordinate corrective actions with the Inspector General.

While these steps appear to be positive, there continues to be high turnover in the housing authority's management—a source of past problems and a potential limit on the authority's ability to sustain recent improvements. The authority has had several administrators over the past few years as well as a constantly changing stream of senior administrative staff. With every change in administration, new staff have been trained, and new processes and guidelines have been established. This constant change has resulted in a lack of accountability for past problems and confusion among those responsible for implementing the new processes and procedures. Already, the new administration, which was installed in January 2001, has hired a second administrator.

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# Housing Authority of New Orleans

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The Housing Authority of New Orleans (HANO) was organized in 1937 to assist and provide housing to low-income residents of New Orleans. HANO operates approximately 9,600 public housing units in the city of New Orleans. As of December 14, 2001, the housing authority had approximately 6,600 occupied units and 3,000 vacant units. HANO was designated as troubled in 1979 and remained as such until 1998, after it scored well enough under HUD's former evaluation system to be removed from the troubled list. The most recent and available assessment of the housing authority's performance is for fiscal year 2000. Under this assessment, the authority received an overall advisory PHAS score of 61 out of 100 possible points, including 26 out of 30 points for its management operations. For fiscal year 2001, the housing authority received over \$66 million, including an operating subsidy of \$34 million, \$29.8 million through the Capital Fund Program, and \$2.8 million through the Drug Elimination Program.

HANO's current executive director assumed responsibility in September 2000. At that time, the accounting and management firm of Mitchell and Titus, LLP, won a federal contract to assume the role of the board of commissioners at HANO. In January 2001, the firm appointed a subcontractor who acts as a one-person board for HANO.

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## Historical Problems

HANO has experienced significant management problems, particularly a lack of continuity in its top management. Since 1997, HANO has had four different one-person boards. In addition, it has had three executive directors in the past 6 years. This lack of continuity has contributed to the housing authority's inability to make any significant progress in maintaining and improving its housing stock. During some periods, routine maintenance was not conducted on many of its properties, and it is only now, under its most recent executive director, that it has begun major rehabilitation work to modernize many of its units. Because of these management problems, HANO has received poor physical condition scores for the last several years. The current executive director has also had to make changes within the Section 8 staff. The executive director conveyed that an in-depth investigation of the program revealed improprieties among some of the staff, and several individuals were fired, placed on administrative leave, or relocated.

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Figure 21: Example of a Deteriorated Public Housing Development at the Housing Authority of New Orleans

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Housing Authority of New Orleans, deteriorated public housing development

Source: GAO photographs taken during site visits to five housing authorities.

According to HANO officials, outside interference has made it extremely difficult to determine who is actually in charge at HANO. The chair of HANO's board of directors explained that he has periodically seen outsiders step in and either influence or reverse decisions taken by the housing authority. The chair explained that the ambiguity surrounding who is in charge at HANO has contributed to further delays in the housing authority's plans to maintain its housing assets. Specifically, he said that contracts and proposals have at times been delayed by outside interference.

HANO also has had a history of procurement problems. According to the local HUD Inspector General's office, HUD headquarters has denied procurements in some cases because of improprieties in the housing authority's scoring of bids for projects. Concerns have also arisen about procurement violations under a recovery plan that the authority embarked upon in 1996.

Finally, HANO has accumulated insurance and other claims that have amounted to about \$22 million in liabilities. Judgments against the housing authority have continued to accrue interest. While the claims have left the housing authority financially strapped, HUD's current executive monitor and HANO's executive director are making this issue a priority, allocating approximately \$5 million annually for payments of claims.

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## HUD's Role and Corrective Actions

In 1996, HUD entered into a partnership with the city of New Orleans through a cooperative endeavor agreement designed to bring about the agency's recovery. HANO officials view this agreement as a form of administrative receivership. Under the agreement, HANO's seven-member board of commissioners was dissolved and the acting assistant secretary for public and Indian housing was given the authority to fulfill the duties of the board. An executive monitor position was created to oversee, coordinate, and monitor HANO's compliance with the agreement. Specifically, the executive monitor oversees work on modernization, revitalization, capital funding, and development. HUD retained its right to appoint a receiver and created a specific action plan for the authority's improvement. Under the agreement, HUD headquarters, and not the local HUD field office, makes most of the decisions affecting the oversight and monitoring of the housing authority. The cooperative endeavor agreement is effective through December 31, 2003.

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## Current Status and Challenges

HANO is currently focusing on its modernization and revitalization projects. The authority is taking steps to correct the problems caused by deferring maintenance in the past. Progress has been slower than expected, particularly on the HOPE VI sites where, according to the local HUD field office, tenants' concerns about relocation have caused delays. The housing authority is also investigating the insurance claims against it and attempting to settle those that pose the greatest financial risks.



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**Appendix V**  
**Housing Authority of New Orleans**

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HUD and HANO have discussed the possibility of a judicial receivership as the next step in bringing about the authority's recovery. However, they have not yet reached a final decision.

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# Chicago Housing Authority

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The Chicago Housing Authority—the nation's third largest, with 38,000 units—has long had a history of problems. HUD designated the authority as “troubled” as far back as 1979, when the Department first began to focus on poorly performing housing authorities. In 1995, HUD took control of the authority's operations. It reorganized the authority's management, privatized some functions, developed plans to improve maintenance and security, and began to rebuild and rehabilitate the housing stock. After completing these actions, HUD returned the authority to local control in 1999. For fiscal year 1999, the Chicago Housing Authority received an overall advisory PHAS score of 65.

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## Historical Problems

Management problems and distressed housing conditions have plagued the Chicago Housing Authority for years. It has had material weaknesses in its internal control system, fiscal problems, and frequent turnover of top management. In 1989, we reported that the authority had operated for years without reasonable assurance that federal funds were adequately safeguarded against waste, loss, or misuse.<sup>25</sup> In addition, the authority's housing is among the worst in the nation—old, deteriorated, and poorly designed for the climate. According to a Chicago Housing Authority official, the cost of repairing these poorly designed projects is excessive. For example, after the boilers at the authority's Robert Taylor Homes development broke down in the middle of winter, causing flooding and freezing, the repairs cost \$150,000 per affected unit, according to a housing authority official. Further complicating the authority's problems are large concentrations of high-rise family projects. For example, the Robert Taylor Homes and Stateway Gardens public housing complexes form one continuous development with approximately 6,000 units. The design of these developments and their concentration of residents have exacerbated crime and social problems in Chicago's public housing.

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<sup>25</sup>U.S. General Accounting Office, *Public Housing: Chicago Housing Authority Taking Steps to Address Long-Standing Problems*, GAO/RCED-89-100 (Washington, D.C.: June 8, 1995).

Figure 22: Examples of a Deteriorated Public Housing Development at the Chicago Housing Authority



Chicago Housing Authority,  
deteriorated public housing development



Source: GAO photographs taken during site visits to five housing authorities.

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## HUD's Role and Corrective Actions

After returning the Chicago Housing Authority to local control, HUD agreed with its management and Mayor Daley to grant the authority budget and management flexibility, allowing it to completely revamp public housing in Chicago under its Plan for Transformation. HUD agreed to provide \$1.5 billion over 10 years so that the housing authority could carry out this plan, which includes the demolition of 18,000 units and the redevelopment or rehabilitation of 25,000 units. The new units are to be located in mixed-income communities. HUD used its Moving to Work Program to allow the Chicago Housing Authority to undertake a redevelopment plan of this size, even though the authority does not have the history of high performance that other authorities in the program have had. The Moving to Work Program was designed to reward housing authorities that had demonstrated above-average performance by giving them the flexibility to combine their funding streams into a single block grant. The purpose of the program was to test innovative methods of providing housing and delivering services to low-income families in a cost-effective manner. According to Chicago Housing Authority and HUD officials, even though the housing authority was not a high-performing agency, the Moving to Work Program was the only means by which it could carry out its Plan for Transformation. According to housing authority officials, they needed to combine their funding sources to leverage their assets and attract private funding.

Under this special agreement, HUD is monitoring the housing authority through a headquarters-based liaison, using monitoring goals that the authority agreed to under the Plan for Transformation. While still subject to evaluation under PHAS, the authority will not be penalized until March 2003 if its developments fail their physical inspections, if the authority is making reasonable progress under its plan. HUD considers the Plan for Transformation sufficient to meet its requirement for a recovery plan.

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## Current Status and Challenges

The Chicago Housing Authority has instituted several changes in its operations in accordance with its goals under the Plan for Transformation and has begun redevelopment activities. It has transferred all of its property management functions to professional property management companies or resident management corporations, reduced overhead expenses, and eliminated its police force to achieve further cost savings. According to the representatives of resident groups we spoke with, maintenance at the developments has improved since the transfer of property management responsibilities to private companies. The

representatives also commented that under the Plan for Transformation, the housing authority officials are more responsive to the residents' concerns and have a better rapport with the residents. Housing authority officials are also seeking input from residents on the design of the new public housing developments and the amenities they should provide. According to the Chicago Housing Authority, redevelopment has begun at six of its major developments. Since 1995, the authority has spent approximately \$50 million on redevelopment activities, including the demolition of 1,190 units, rehabilitation of 2,178 units, and construction of 455 new units.

The Chicago Housing Authority has many challenges to face in completing its massive transformation. The plan will take several years to complete, repairs of existing units will cost over \$3 billion, and approximately 6,000 households will require relocation. Some of the residents are opposed to relocating because they are fearful that they will not be able to return to public housing. As a result, residents have taken legal action to prevent the demolition of their housing projects. Another challenge for the residents who need to relocate is the tightness of the rental housing market in Chicago. Some residents have complained that they have not been able to use their Section 8 vouchers to find apartments. According to the Metropolitan Planning Council, as of 1999, Chicago's rental market has a vacancy rate of 4.2 percent, well below the 6-percent figure that HUD uses to define a tight market.<sup>26</sup> The Chicago Housing Authority also faces constraints on where it may build new public housing developments. As a result of a 1969 court order, known as the Gautreaux<sup>27</sup> judgment order, the building of new public housing units is restricted in neighborhoods where more than 30 percent of the population is African American.

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<sup>26</sup>*Public Housing in the Public Interest: Chicago Housing Authority Transformation Plan Update, October 2000*, Metropolitan Planning Council (Chicago: Oct. 2000).

<sup>27</sup>*Gautreaux v. CHA*, 304 F. Supp. 736 (N.D. Ill. 1969)

# San Francisco Housing Authority

The San Francisco Housing Authority (SFHA) was established in 1938 and currently operates approximately 6,100 public housing units in the city of San Francisco. As of July 31, 2001, approximately 98 percent of these units were occupied. The current executive director assumed his position in March 2001. For fiscal year 2001, SFHA received over \$43 million, including a \$24.6 million operating subsidy, \$17.6 million through the Capital Fund Program, and \$1.4 million through the Drug Elimination Program. To date, the authority has also received \$115 million in HOPE VI grants.

The most recent and available assessment of SFHA's performance is for fiscal year 2000. The authority received an overall advisory PHAS score of 63 but was awarded only 9 of 30 possible points for the financial condition indicator. The authority was taken over by a HUD recovery team from 1996 to 1997 and was then assigned to a recovery center in 1997. The housing authority could have been removed from the center in 1999 after being designated as a standard performer under PHMAP, but the authority decided to stay in the center so that it could continue to receive assistance. SFHA is currently assigned to the Memphis Troubled Agency Recovery Center.

## Historical Problems

SFHA's most pressing problem—and the primary reason for its low financial condition score under PHAS—is an operating reserve shortfall. The authority has been unable to balance its budget and for fiscal year 2001 had an operating deficit of \$6.2 million. In general, the authority has very high expenses because, according to HUD officials, its employees are paid at union rates, reflecting the strength of unions in the city. In addition, the housing authority spent almost \$5 million during fiscal year 2001 for security provided by the San Francisco Police Department and by private security hired by the authority.

Other reasons for SFHA's operating reserve shortfall include debt incurred in recent years and past improper procurements. The authority is paying back approximately \$22 million in emergency funds that the previous executive director borrowed from HUD for repairs to roofs and broken concrete, among other problems. In addition, more money was spent on some contracts than was necessary because the authority was not following procurement policies correctly and contracts were being handled improperly.

According to SFHA officials, the housing authority has also had problems with high turnover and staffing. Specifically, the authority has had 10 executive directors in the past 10 years. In addition, past hiring practices led to overstaffing, and some of the personnel who were hired did not have the necessary qualifications, according to HUD and SFHA officials. Furthermore, an SFHA official explained that some of the housing authority's current employees are still loyal to the previous executive director, and that this situation has caused divisions within the housing authority.

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## HUD's Role and Corrective Actions

The Memphis recovery center is currently servicing SFHA. A team from the center provides technical assistance deemed necessary for the authority's recovery and works closely with the authority's public housing programs. It also monitors the authority and works with it to close out the HUD Inspector General's audit findings.

The recovery center works with the housing authority on many fronts. Together, they have developed a plan to balance the budget, and the center has submitted a plan to the authority's executive director for improving the authority's operations. HUD expects that some of the plan's recommendations will be reflected in the authority's budget. The recovery center has also worked with the authority on procurement procedures by training staff on contracting regulations and practices. The recovery center also reviews all procurement actions in excess of \$50,000. Finally, the recovery center is assessing the staffing situation at SFHA. According to the recovery center's team leader for SFHA, since the center began servicing the authority, 50 to 70 positions have been terminated in an effort to cut costs and alleviate the overstaffing. As part of this effort, the center is responsible for reviewing the hiring of individuals whose salary exceed \$50,000.

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## Current Status and Challenges

SFHA has made some progress toward financial accountability under the recovery center's supervision. More attention is now being given to how the housing authority allocates its budget. In addition, procurement policies and procedures are being improved. The housing authority has reduced its staff and, with assistance from the recovery center, is working on a plan to improve its operations. The center's goal for completing the authority's recovery is September 30, 2002.

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# Contact and Staff Acknowledgments

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## GAO Contact

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